

**AUDITED FINANCIAL STATEMENTS  
REQUIRED SUPPLEMENTAL INFORMATION  
OTHER FINANCIAL INFORMATION  
AND SUPPLEMENTAL REPORTS**

**(Gogebic)  
TOWNSHIP OF WATERSMEET  
WATERSMEET, MICHIGAN**

**March 31, 2004**

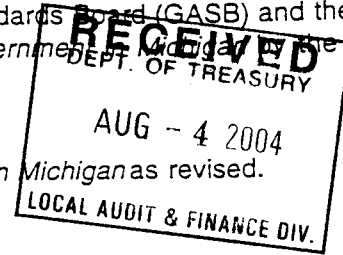
27-1060

# AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

|   |                               |  |                   |
|---|-------------------------------|--|-------------------|
| Local Government Type<br><input type="checkbox"/> City <input checked="" type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other |                               | Local Government Name<br>TOWNSHIP OF WATERSMEET              | County<br>GOGEBIC |
| Audit Date<br>MARCH 31, 2004  | Opinion Date<br>JUNE 30, 2004 | Date Accountant Report Submitted to State:<br>AUGUST 2, 2004 |                   |

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan as revised. Michigan Department of Treasury.



We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ yes ☐ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

## We have enclosed the following:

|   | Enclosed | To Be Forwarded | Not Required |
|---|----------|-----------------|--------------|
| The letter of comments and recommendations.                                   | X        |                 |              |
| Reports on individual federal financial assistance programs (program audits). |          |                 | X            |
| Single Audit Reports (ASLGU).   |          |                 | X            |

Certified Public Accountant (Firm Name)  
JOKI, MAKELA & POLLACK, P.L.L.C.

Street Address  
301 N. SUFFOLK ST.

City  
IRONWOOD

State  
MI

ZIP  
49938

Accountant Signature

*Joke Makela, Pollack, PLLC*

## CONTENTS

|  |        |
|--|--------|
| Audited Financial Statements:  | Page 4 |
| Independent Auditor's Report .....   |        |
| Management's Discussion and Analysis .....   | 6      |
| Basic Financial Statements:  |        |
| Government-wide Financial Statements:  |        |
| Statement of Net Assets .....  | 12     |
| Statement of Activities .....  | 13     |
| Fund Financial Statements:   |        |
| Balance Sheet – General Fund .....   | 15     |
| Reconciliation of the General Fund Balance Sheet with the Statement of<br>Net Assets .....   | 16     |
| Statement of Revenues, Expenditures and Changes in Fund Balance – General Fund .....   | 17     |
| Reconciliation of the General Fund Statement of Revenues, Expenditures, and<br>Changes in Fund Balance with the Statement of Activities..... | 18     |
| Proprietary Funds:   |        |
| Statement of Net Assets .....  | 19     |
| Statement of Revenues, Expenses and Changes in Net Assets .....  | 20     |
| Statement of Cash Flows .....  | 21     |
| Statement of Fiduciary Net Assets – Agency Fund .....  | 22     |
| Statement of Changes in Fiduciary Net Assets – Pension Trust Fund .....  | 23     |
| Notes to Financial Statements .....  | 25     |
| Required Supplemental Information:   |        |
| Budgetary Comparison Schedule – General Fund.....  | 42     |

## CONTENTS (CONTINUED)

### Other Financial Information:

#### General Fund:

|  |    |
|--|----|
| Statement of Revenues – Estimated and Actual .....         | 44 |
| Statement of Expenditures and Comparison with Budget ..... | 46 |

#### Enterprise Funds:

|   |    |
|---|----|
| Combining Statements of Net Assets .....                                  | 51 |
| Combining Statement of Revenues, Expenses and Changes in Net Assets ..... | 53 |
| Combining Statement of Cash Flows .....                                   | 54 |

#### Sewage Disposal System Fund:

|  |    |
|--|----|
| Statement of Net Assets .....                                    | 56 |
| Statements of Revenues, Expenses and Changes in Net Assets ..... | 58 |
| Statements of Cash Flows .....                                   | 59 |

|   |    |
|---|----|
| Fiduciary Fund – Statement of Changes in Assets and Liabilities – Tax Collection Fund ..... | 61 |
|---|----|

### Supplemental Reports -

|   |     |
|---|-----|
| Report on Compliance and on Internal Control Over Financial Reporting<br>Based on an Audit of Financial Statements Performed in Accordance<br>with <i>Government Auditing Standards</i> ..... | A-1 |
| Schedule of Findings .....  | B-1 |

**JOKI, MAKELA & POLLACK, P.L.L.C.**

CERTIFIED PUBLIC ACCOUNTANTS  
301 N. SUFFOLK STREET  
IRONWOOD, MICHIGAN 49938-2027

T. J. MAKELA, C.P.A.  
W. J. JOKI, C.P.A.  
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**INDEPENDENT AUDITOR'S REPORT**

Supervisor and Members of the Board  
Township of Watersmeet  
Watersmeet, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities and each major fund of Township of Watersmeet and its fund financial statements as of and for the year ended March 31, 2004, which collectively comprise the basic financial statements of Township of Watersmeet, as listed in the table of contents. These financial statements are the responsibility of the Township's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities and each major fund of Township of Watersmeet as of March 31, 2004, and the respective changes in financial position and cash flows, where applicable; thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated June 30, 2004, on our consideration of Township of Watersmeet's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

As described in Note A, the Township has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as of March 31, 2004.

The management's discussion and analysis and budgetary comparison information on pages 6 through 10 and page 42, respectively, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Township of Watersmeet's basic financial statements. The accompanying Other Financial Information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, it is fairly presented, in all material respects, in relation to the financial statements taken as a whole. Also, in our opinion, the combining financial statements of Township of Watersmeet Enterprise Funds and the individual fund financial statements of the Sewage Disposal System Fund as of and for the year ended March 31, 2003, present fairly, in all material respects, the financial position of those funds as of March 31, 2003 and the respective changes in financial position and cash flows, thereof for the year then ended.

*Joki, Makela & Pollack, PLLC*

Certified Public Accountants

Ironwood, Michigan  
June 30, 2004

# MANAGEMENT'S DISCUSSION AND ANALYSIS

## TOWNSHIP OF WATERSMEET

Year ended March 31, 2004

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### Management's Discussion and Analysis

This section of the Township of Watersmeet's (Township) annual financial report presents our discussion and analysis of the Township's financial performance during the year ended March 31, 2004. It is to be read in conjunction with the Township's financial statements, which immediately follow. This is a requirement of the Governmental Accounting Standards Board Statement No. 34 (GASB 34) *Basic Financial Statements – and Managements Discussion and Analysis – for State and Local Governments* and is intended to provide the financial results for the fiscal year ending March 31, 2004. This is the first year of GASB 34 implementation. As a result the financial report is presented differently than previous years. Because this is the first year of implementation of GASB Statement No. 34, prior-year data is not available but will be provided in subsequent years for comparative purposes.

### Government-wide Financial Statements

The Government-wide financial statements appear first in the financial report. These financial statements include the statement of net assets and the statement of activities. They report information about the Township as a whole. The statements are prepared using the accrual method of accounting which is the accounting used by most private sector businesses. The statement of net assets includes all of the Township's assets and liabilities except the fiduciary funds. All current year revenues and expenses are reported in the statement of activities. The two statements report the governmental and business-type activities of the Township that include all services performed by the Township. These activities are funded primarily by property taxes, charges for services and by federal and state grants.

The statement of net assets reports the Township's assets and liabilities. The corresponding balance between the assets and liabilities equals the net assets of the Township. This statement measures the financial strength of the Township; the greater the net asset figure, the healthier the financial position of the Township generally is. It helps management determine if the Township will be able to fund current obligations and whether they have resources available for future use.

The statement of activities shows the current year change in net assets on a revenue less expense basis. It generally shows the operating results for a given year of the Township. Any excess of revenues over expenditures results in a surplus for the year that in turn increases the net assets (or reduces a deficit) available to fund future needs of the Township.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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### Fund Financial Statements

The Township's fund financial statements show a detail of funds that are determined to be significant, called major funds. The funds that are separately stated as major funds are the General Fund, Water Supply Fund and Sewage Disposal System Fund. The Township has no nonmajor funds.

Governmental funds are accounted for by the modified accrual method of accounting (flow of current financial resources measurement focus). This method records revenues when all applicable eligibility requirements are met and resources are available to finance expenditures of the fiscal period. Expenditures are recorded when the related liability is incurred. The governmental fund financial statements show the detail of operations for a given year according to this method of accounting. This is similar to how the Township reported their finances in the past. The individual fund statements help management determine what financial resources are available on a short-term basis to fund operations.

Since the government-wide financial statements and the fund financial statements use different methods of accounting to report the Township's financial condition, a reconciliation is included in the financial statements showing the differences between the two types of statements.

Proprietary fund statements provide both long-term and short-term financial information consistent with the focus provided by the government-wide financial statements but with more detail for major enterprise funds.

Fiduciary funds, such as the employee pension plan, are reported in the fiduciary fund financial statement, but are excluded from the government-wide reporting. The fiduciary fund financial statement reports resources that are not available to fund Township programs. The fiduciary fund financial statement reports similarly to proprietary funds.



# MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

## Government-wide Financial Statements – Condensed Financial Information

### Statement of Net Assets

The following is a March 31, 2004, condensed statement of net assets with a detailed analysis of the statement below.

|   | Governmental<br>Activities | Business-Type<br>Activities |
|---|----------------------------|-----------------------------|
| <b>ASSETS</b>                                     |                            |                             |
| Current Assets:                                   |                            |                             |
| Cash  | \$ 142,596                 | \$ 134,031                  |
| Accounts receivable                               | 71,327                     | 17,751                      |
| Other current assets                              | <u>364,097</u>             | <u>916</u>                  |
| Total Current Assets                              | \$ 578,020                 | \$ 152,698                  |
| Noncurrent Assets:                                |                            |                             |
| Restricted cash                                   |                            | \$ 38,373                   |
| Capital assets, net of accumulated depreciation   | <u>\$ 659,951</u>          | <u>1,068,338</u>            |
| Total Noncurrent Assets                           | <u>\$ 659,951</u>          | <u>\$ 1,106,711</u>         |
| Total Assets                                      | <u>\$ 1,237,971</u>        | <u>\$ 1,259,409</u>         |
| <b>LIABILITIES</b>                                |                            |                             |
| Accounts payable                                  | \$ 51,167                  | \$ 1,650                    |
| Other current liabilities                         | <u>76,720</u>              | <u>7,653</u>                |
| Total Current Liabilities                         | \$ 127,887                 | \$ 9,303                    |
| Long-term liabilities, net of current portion     | <u>132,528</u>             | <u>300,000</u>              |
| Total Liabilities                                 | <u>\$ 260,415</u>          | <u>\$ 309,303</u>           |
| <b>NET ASSETS</b>                                 |                            |                             |
| Investment in capital assets, net of related debt | \$ 532,316                 | \$ 763,338                  |
| Restricted for debt service                       |                            | 38,373                      |
| Unrestricted                                      | <u>445,240</u>             | <u>148,395</u>              |
| Total Net Assets                                  | <u>\$ 977,556</u>          | <u>\$ 950,106</u>           |

The Township's total net assets are \$1,927,662 at March 31, 2004. Capital assets, net of related debt are \$1,295,654. This figure is derived by taking the original cost of the Township's assets, subtracting accumulated depreciation to date and comparing this figure to the amount of long-term debt used to finance the acquisition of those assets.

# MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

## Government-wide Financial Statements – Condensed Financial Information

### Statement of Net Assets (Continued)

Restricted net assets of \$38,373 are restricted by enterprise fund bond ordinances and by Board action.

The total unrestricted net assets are \$593,635 as of March 31, 2004. This is the net accumulated result of the current and past years' operations. The nature of the Township's operations is based on property taxes, charges for services, state aid, federal grants and local funds received to fund various programs. The balance in the unrestricted net assets shows that the Township has an ample amount of assets to fund liabilities at March 31, 2004.

### Statement of Activities

The results of operations for the Township as a whole are reported in the statement of activities. This statement reports the changes in net assets for the fiscal year ended March 31, 2004. Since this is the first year the Township has prepared financial statements following GASB Statement No. 34, revenue and expense comparisons to the previous year are not made.

|                                    | Governmental<br>Activities | Business-Type<br>Activities |
|------------------------------------|----------------------------|-----------------------------|
| Revenue:                           |                            |                             |
| Program Revenues:                  |                            |                             |
| Charges for services               | \$ 57,943                  | \$ 109,711                  |
| Operating grants and contributions | 205,813                    |                             |
| General Revenues:                  |                            |                             |
| Property Taxes                     | 400,082                    |                             |
| State and federal grants           | 143,345                    |                             |
| Other                              | 29,019                     | 1,068                       |
| Total Revenue                      | <u>\$ 836,202</u>          | <u>\$ 110,779</u>           |
| Program expenses:                  |                            |                             |
| Governmental activities            | \$ 692,718                 |                             |
| Business-type activities           | <u>692,718</u>             | <u>\$ 150,658</u>           |
|                                    |                            | <u>\$ 150,658</u>           |
| Increase (Decrease) in Net Assets  | <u>\$ 143,484</u>          | <u>\$ (39,879)</u>          |

The Township had an overall increase in net assets of \$103,605 for the year ended March 31, 2004, consisting of an increase in governmental activities of \$143,484 and a decrease in business-type activities of \$39,879.

The Township's total revenues totaled \$946,981.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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### Statement of Activities (Continued)

The Township's total cost to fund governmental activities was \$692,718, and business-type activities was \$150,658. A majority of these costs were funded by property taxes and state and federal grants. This shows the Township has reliance on property taxes and grants to provide future funding for its programs and administrative costs. During the year ended March 31, 2004, the Township increased its water rates from a monthly charge of \$6.00 to \$18.50 a month to generate a better cash flow for its Water Supply Fund.

### Governmental Fund Budgetary Items

During the year, the Township revised its original budget several times to account for the changing environment of funding sources. A schedule showing the Township's original budget, final budget and the actual results are included as required supplementary information in the financial section of the audit report.

### Capital Assets

At March 31, 2004, the Township had \$1,728,289 invested in capital assets net of accumulated depreciation. This amount increased during the past fiscal year by \$230,598, consisting of additions totaling \$225,196, and depreciation charges of \$13,702 for its governmental activities, and additions of \$67,815 and depreciation charges of \$48,711 for its business-type activities. Included in governmental activities additions was a new fire truck costing \$205,645.

### Debt

The Township had \$437,528 of long-term liabilities at March 31, 2004. This amount consists of \$305,000 of a revenue bond payable as described in Note G to the financial statements, a \$127,635 note payable for a fire truck as described in Note H to the financial statements and \$4,893 of accrued paid time off benefits payable to employees as described in Note A to the financial statements.

### Future Considerations

The change in state aid payments along with State budget cuts will impact the financial condition of the Township. The Township has adopted a budget for the upcoming fiscal year that should not over expend it's funding and leave the Township with a positive Fund Balance. The Township expects to spend significant resources on road repair and construction in the coming year. Continuing efforts are being made at obtaining grant and loan financing for a water system improvement project.

### Contacting the Township

If you have any questions about this report or need additional information, contact the Township offices at Township of Watersmeet, P.O. Box 306, Watersmeet, MI 49969; telephone number (906) 358-4501.

BASIC  
FINANCIAL  
STATEMENTS

STATEMENT OF NET ASSETS  
TOWNSHIP OF WATERSMEET, MICHIGAN

March 31, 2004

|   | Governmental<br>Activities | Business-Type<br>Activities |
|---|----------------------------|-----------------------------|
| ASSETS  |                            |                             |
| Cash  | \$ 142,596                 | \$ 134,031                  |
| Receivables:                                    |                            |                             |
| Delinquent property taxes                       | 27,327                     |                             |
| Accounts  | 44,000                     | 17,751                      |
| Due from other funds                            | 364,097                    | 916                         |
| Capital assets, net                             | 659,951                    | 1,068,338                   |
| Restricted cash                                 | <u>          </u>          | <u>38,373</u>               |
|   | <u>\$ 1,237,971</u>        | <u>\$ 1,259,409</u>         |
| LIABILITIES                                     |                            |                             |
| Liabilities:                                    |                            |                             |
| Accounts payable                                | \$ 51,167                  | \$ 1,650                    |
| Accrued interest                                |                            | 1,608                       |
| Advance collections                             |                            | 1,045                       |
| Due other funds                                 | 916                        |                             |
| Due other governmental units                    | 12,707                     |                             |
| Deferred revenues                               | 63,097                     |                             |
| Long-term debt                                  | 127,635                    | 305,000                     |
| Accumulated absences                            | <u>4,893</u>               | <u>          </u>           |
| Total Liabilities                               | <u>\$ 260,415</u>          | <u>\$ 309,303</u>           |
| NET ASSETS                                      |                            |                             |
| Invested in capital assets, net of related debt | \$ 532,316                 | \$ 763,338                  |
| Restricted                                      |                            | 38,373                      |
| Unrestricted                                    | <u>445,240</u>             | <u>148,395</u>              |
| Total Net Assets                                | <u>\$ 977,556</u>          | <u>\$ 950,106</u>           |

The accompanying notes are an integral part of the financial statements.

STATEMENT  
TOWNSHIP OF  
Year ended

|                                |                   | Program Revenues     |                                    |
|--------------------------------|-------------------|----------------------|------------------------------------|
|                                | Expenses          | Charges for Services | Operating Grants and Contributions |
| Governmental activities:       |                   |                      |                                    |
| Legislative                    | \$ 31,607         |                      |                                    |
| General government             | 238,164           | \$ 16,739            | \$ 29,230                          |
| Health and welfare             | 2,760             |                      |                                    |
| Public safety                  | 147,894           | 24,651               | 95,000                             |
| Recreation and parks           | 19,521            |                      |                                    |
| Public works                   | 153,387           | 7,122                | 66,583                             |
| Other functions                | 85,683            | 9,431                | 15,000                             |
| Depreciation - unallocated     | <u>13,702</u>     |                      |                                    |
| Total Governmental Activities  | \$ 692,718        | \$ 57,943            | \$ 205,813                         |
| Business-type activities:      |                   |                      |                                    |
| Water Supply                   | \$ 62,339         | \$ 46,304            |                                    |
| Sewage Disposal System         | <u>88,319</u>     | <u>63,407</u>        |                                    |
| Total Business-Type Activities | \$ 150,658        | \$ 109,711           |                                    |
| Total                          | <u>\$ 843,376</u> | <u>\$ 167,654</u>    | <u>\$ 205,813</u>                  |

General revenues:  
Taxes  
State and federal grants  
Interest and rents

Total General Revenues

Change in Net Assets

Net assets at April 1, 2003

Net assets at March 31, 2004

The accompanying notes are an integral part of the financial statements.

OF ACTIVITIES

WATERSMEET, MICHIGAN

March 31, 2004

| Net (Expense) Revenue and<br>Changes in Net Assets |                             |                  |
|--|-----------------------------|------------------|
| Governmental<br>Activities                         | Business-type<br>Activities | Total            |
| \$ (31,607)  |                             | \$ (31,607)      |
| (192,195)  |                             | (192,195)        |
| (2,760)  |                             | (2,760)          |
| (28,243)   |                             | (28,243)         |
| (19,521)   |                             | (19,521)         |
| (79,682)   |                             | (79,682)         |
| (61,252)   |                             | (61,252)         |
| <u>(13,702)</u>                                    |                             | <u>(13,702)</u>  |
| \$ (428,962)                                       |                             | \$ (428,962)     |
|  | \$ (16,035)                 | \$ (16,035)      |
|  | <u>(24,912)</u>             | <u>(24,912)</u>  |
|  | \$ (40,947)                 | \$ (40,947)      |
| \$ (428,962)                                       | \$ (40,947)                 | \$ (469,909)     |
| \$ 400,082   |                             | \$ 400,082       |
| 143,345  |                             | 143,345          |
| <u>29,019</u>                                      | \$ 1,068                    | <u>30,087</u>    |
| \$ 572,446   | \$ 1,068                    | \$ 573,514       |
| \$ 143,484   | \$ (39,879)                 | \$ 103,605       |
| <u>834,072</u>                                     | <u>989,985</u>              | <u>1,824,057</u> |
| \$ 977,556   | \$ 950,106                  | \$ 1,927,662     |

BALANCE SHEET - GENERAL FUND  
TOWNSHIP OF WATERSMEET, MICHIGAN

March 31, 2004

---

| ASSETS                                |                   |
|---------------------------------------|-------------------|
| Cash                                  | \$ 142,596        |
| Delinquent property taxes             | 27,327            |
| Accounts receivable                   | 44,000            |
| Due from other funds                  | <u>364,097</u>    |
| Total Assets                          | \$ <u>578,020</u> |
| LIABILITIES                           |                   |
| Liabilities:                          |                   |
| Accounts payable                      | \$ 51,167         |
| Due other funds                       | 916               |
| Due other governmental units          | 12,707            |
| Deferred revenues                     | <u>63,097</u>     |
| Total Liabilities                     | \$ <u>127,887</u> |
| FUND EQUITY                           |                   |
| Fund Equity - unreserved fund balance | \$ <u>450,133</u> |

The accompanying notes are an integral part of the  
financial statements.



RECONCILIATION OF THE GENERAL FUND BALANCE SHEET  
WITH THE STATEMENT OF NET ASSETS  
TOWNSHIP OF WATERSMEET, MICHIGAN

March 31, 2004

---

|  |            |
|--|------------|
| Total fund equity of governmental activities | \$ 450,133 |
|--|------------|

Amounts reported for governmental activities in the statement of net assets are different because:

Additions:

Capital assets used in governmental activities are not financial resources and  
therefore are not reported as assets in governmental funds.

|                          |                  |         |
|--------------------------|------------------|---------|
| Cost of capital assets   | \$ 1,034,027     |         |
| Accumulated depreciation | <u>(374,076)</u> | 659,951 |

Reductions:

Long-term liabilities are not due and payable in the current period and therefore  
not reported as liabilities in the funds.

|                                     |              |                  |
|-------------------------------------|--------------|------------------|
| USDA Rural Development note payable | \$ 127,635   |                  |
| Accumulated absences                | <u>4,893</u> | <u>(132,528)</u> |

|   |                   |
|---|-------------------|
| Total net assets of governmental activities | \$ <u>977,556</u> |
|---|-------------------|

The accompanying notes are an integral part of the  
financial statements.

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCE - GENERAL FUND

TOWNSHIP OF WATERSMEET, MICHIGAN

Year ended March 31, 2004

|  |  |
|--|--|
| Revenues:  |  |
| Taxes  | \$ 400,082   |
| Licenses and permits                             | 24,651   |
| Federal grants                                   | 78,583   |
| State grants                                     | 103,345  |
| Charges for services                             | 23,861   |
|  |  |
| Interest and rents                               | 29,019   |
| Other revenues                                   | <u>176,661</u>                                       |
|  | \$ 836,202   |
| Expenditures:                                    |  |
| Current:   |  |
| Legislative                                      | \$ 31,607  |
| General government                               | 238,164  |
| Health and welfare                               | 2,760  |
| Public safety                                    | 147,894  |
| Recreation and parks                             | 19,521   |
| Public works                                     | 153,387  |
| Other functions                                  | 80,916   |
| Capital outlay                                   | 225,196  |
| Debt service                                     | <u>15,985</u>  |
|  | \$ 915,430   |
|  |  |
|  | DEFICIENCY OF REVENUES OVER EXPENDITURES \$ (79,228) |
| Other financing sources- proceeds from borrowing | <u>140,000</u>                                       |
|  |  |
|  | EXCESS OF REVENUES AND OTHER                         |
|  | FINANCING SOURCE OVER EXPENDITURES \$ 60,772         |
| Fund balance at April 1, 2003                    | <u>389,361</u>                                       |
|  |  |
|  | FUND BALANCE AT MARCH 31, 2004 \$ <u>450,133</u>     |

The accompanying notes are an integral part of the  
financial statements.

RECONCILIATION OF THE GENERAL FUND STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCE WITH THE STATEMENT OF ACTIVITIES

TOWNSHIP OF WATERSMEET, MICHIGAN

March 31, 2004

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|   |                      |                 |                   |
|---|----------------------|-----------------|-------------------|
| Total net change in fund balance - General Fund   |                      |                 | \$ 60,772         |
| Amounts reported for governmental activities in the statement of activities are different because:  |                      |                 |                   |
| Capital outlays to purchase or construct capital assets are reported as expenditures in governmental funds. For governmental activities, those costs are shown in the statement of net assets and allocated over their estimated useful lives as annual depreciation expenses in the statement of activities. This is the amount by which capital outlays exceeds depreciation in the period. |                      |                 |                   |
|   | Capital outlays      | \$ 225,196      |                   |
|   | Depreciation expense | <u>(13,702)</u> | 211,494           |
| Proceeds from borrowing are reported as an other financing source in governmental funds. For governmental activities, those amounts are shown in the statement of net assets as a liability and does not affect the statement of activities.  |                      |                 |                   |
|   |                      |                 | (140,000)         |
| Repayment of bond principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the statement of net assets and does not effect the statement of activities.   |                      |                 |                   |
|   |                      |                 | 12,365            |
| In the statement of activities, operating expenses for compensated absences are measured by amounts earned during the year while the governmental funds report expenditures as amounts are paid. This year the amount paid for compensated absences was less than the amount earned.  |                      |                 |                   |
|   |                      |                 | <u>(1,147)</u>    |
| Change in net assets of governmental activities   |                      |                 | <u>\$ 143,484</u> |

The accompanying notes are an integral part of the financial statements.

## STATEMENT OF NET ASSETS - PROPRIETARY FUNDS

## TOWNSHIP OF WATERSMEET, MICHIGAN

March 31, 2004

|   |    | Business-Type Activities<br>Enterprise Funds |                                      |                |
|---|----|--|--------------------------------------|----------------|
|   |    | Water<br>Supply<br>Fund                      | Sewage<br>Disposal<br>System<br>Fund | Totals         |
| ASSETS  |    |  |                                      |                |
| CURRENT ASSETS                                  |    |  |                                      |                |
| Cash  | \$ | 18,734                                       | \$ 115,297                           | \$ 134,031     |
| Accounts receivable                             |    | 7,302  | 10,449                               | 17,751         |
| Due from other funds                            |    | <u>916</u>                                   |                                      | <u>916</u>     |
| TOTAL CURRENT ASSETS                            | \$ | 26,952                                       | \$ 125,746                           | \$ 152,698     |
| NONCURRENT ASSETS                               |    |  |                                      |                |
| Restricted cash                                 | \$ | 2,304  | \$ 36,069                            | \$ 38,373      |
| Capital assets                                  |    | 457,367                                      | 1,486,568                            | 1,943,935      |
| Less accumulated depreciation                   |    | (265,707)                                    | (649,746)                            | (915,453)      |
| Construction in progress                        |    | <u>39,856</u>                                |                                      | <u>39,856</u>  |
| TOTAL NONCURRENT ASSETS                         | \$ | 233,820                                      | \$ 872,891                           | \$ 1,106,711   |
| TOTAL ASSETS                                    | \$ | <u>260,772</u>                               | \$ 998,637                           | \$ 1,259,409   |
| LIABILITIES                                     |    |  |                                      |                |
| CURRENT LIABILITIES                             |    |  |                                      |                |
| Accounts payable                                | \$ | 71   | \$ 1,579                             | \$ 1,650       |
| Accrued interest                                |    |  | 1,608                                | 1,608          |
| Advance collections                             |    | 839  | 206                                  | 1,045          |
| Current portion of long-term debt               |    |  | <u>5,000</u>                         | <u>5,000</u>   |
| TOTAL CURRENT LIABILITIES                       | \$ | 910  | \$ 8,393                             | \$ 9,303       |
| NONCURRENT LIABILITIES                          |    |  |                                      |                |
| Revenue bonds payable, net of current portion   |    |  | <u>300,000</u>                       | <u>300,000</u> |
| TOTAL LIABILITIES                               | \$ | <u>910</u>                                   | \$ 308,393                           | \$ 309,303     |
| NET ASSETS                                      |    |  |                                      |                |
| Invested in capital assets, net of related debt | \$ | 231,516                                      | \$ 531,822                           | \$ 763,338     |
| Restricted                                      |    | 2,304  | 36,069                               | 38,373         |
| Unrestricted                                    |    | <u>26,042</u>                                | <u>122,353</u>                       | <u>148,395</u> |
| TOTAL NET ASSETS                                | \$ | <u>259,862</u>                               | \$ 690,244                           | \$ 950,106     |

The accompanying notes are an integral part of the financial statements.

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS -  
PROPRIETARY FUND TYPE

TOWNSHIP OF WATERSMEET, MICHIGAN

Year ended March 31, 2004

|                                   | Business-Type Activities<br>Enterprise Funds |                                      |           |                 |
|-----------------------------------|--|--------------------------------------|-----------|-----------------|
|                                   | Water<br>Supply<br>Fund                      | Sewage<br>Disposal<br>System<br>Fund |           | Totals          |
| Operating revenues:               |  |                                      |           |                 |
| Charges for services              | \$ 46,304                                    | \$ 63,407                            | \$        | 109,711         |
| Operating expenses:               |  |                                      |           |                 |
| Personnel services                | \$ 20,873                                    | \$ 18,361                            | \$        | 39,234          |
| Purchase of services              | 26,596                                       | 10,533                               |           | 37,129          |
| Materials and supplies            | 2,914  | 3,682                                |           | 6,596           |
| Provision for depreciation        | <u>11,956</u>                                | <u>36,755</u>                        |           | <u>48,711</u>   |
|                                   | <u>\$ 62,339</u>                             | <u>\$ 69,331</u>                     | <u>\$</u> | <u>131,670</u>  |
| OPERATING LOSS                    | \$ (16,035)                                  | \$ (5,924)                           | \$        | (21,959)        |
| Nonoperating revenues (expenses): |  |                                      |           |                 |
| Interest earned                   | \$ 245                                       | \$ 823                               | \$        | 1,068           |
| Debt service - interest and fees  |  | (18,988)                             |           | (18,988)        |
|                                   | <u>\$ 245</u>                                | <u>\$ (18,165)</u>                   | <u>\$</u> | <u>(17,920)</u> |
| CHANGE IN NET ASSETS              | \$ (15,790)                                  | \$ (24,089)                          | \$        | (39,879)        |
| Net assets at April 1, 2003       | <u>275,652</u>                               | <u>714,333</u>                       |           | <u>989,985</u>  |
| NET ASSETS AT MARCH 31, 2004      | <u>\$ 259,862</u>                            | <u>\$ 690,244</u>                    | <u>\$</u> | <u>950,106</u>  |

The accompanying notes are an integral part of the  
financial statements.

## STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS

## TOWNSHIP OF WATERSMEET, MICHIGAN

Year ended March 31, 2004

|  | Business-Type Activities<br>Enterprise Funds |                                      |                   |
|--|--|--------------------------------------|-------------------|
|  | Water<br>Supply<br>Fund                      | Sewage<br>Disposal<br>System<br>Fund | Totals            |
| Cash flows from operating activities:  |  |                                      |                   |
| Cash received from customers   | \$ 40,935                                    | \$ 59,543                            | \$ 100,478        |
| Cash paid to suppliers and employees for<br>goods and services                                     | <u>(50,896)</u>                              | <u>(32,709)</u>                      | <u>(83,605)</u>   |
| NET CASH PROVIDED BY<br>(USED IN) OPERATING ACTIVITIES   | \$ (9,961)                                   | \$ 26,834                            | \$ 16,873         |
| Cash flows from capital and related financing activities:  |  |                                      |                   |
| Capital expenditures   | \$ (39,856)                                  | \$ (27,959)                          | \$ (67,815)       |
| Principal paid on revenue bonds  |  | (5,000)                              | (5,000)           |
| Revenue bond interest and fees paid  |  | <u>(18,988)</u>                      | <u>(18,988)</u>   |
| NET CASH USED IN CAPITAL AND<br>RELATED FINANCING ACTIVITIES                                       | \$ (39,856)                                  | \$ (51,947)                          | \$ (91,803)       |
| Cash flows from noncapital financing activities -  |  |                                      |                   |
| Advance from (to) other fund   | (6,077)                                      | 3,590                                | (2,487)           |
| Cash flows from investing activities - interest earned   | <u>245</u>                                   | <u>823</u>                           | <u>1,068</u>      |
| NET DECREASE IN CASH   | \$ (55,649)                                  | \$ (20,700)                          | \$ (76,349)       |
| Cash at April 1, 2003  | <u>76,687</u>                                | <u>172,066</u>                       | <u>248,753</u>    |
| CASH AT MARCH 31, 2004   | <u>\$ 21,038</u>                             | <u>\$ 151,366</u>                    | <u>\$ 172,404</u> |
| Reconciliation of operating loss to net cash<br>provided by (used in) operating activities:        |  |                                      |                   |
| Operating loss   | \$ (16,035)                                  | \$ (5,924)                           | \$ (21,959)       |
| Adjustments to reconcile operating loss to net cash<br>provided by (used in) operating activities: |  |                                      |                   |
| Depreciation   | \$ 11,956                                    | \$ 36,755                            | \$ 48,711         |
| Increase in customer accounts receivable   | (5,022)                                      | (3,260)                              | (8,282)           |
| Decrease in:   |  |                                      |                   |
| Accounts payable   | (513)  | (133)                                | (646)             |
| Advance collections  | <u>(347)</u>                                 | <u>(604)</u>                         | <u>(951)</u>      |
| Total adjustments  | <u>\$ 6,074</u>                              | <u>\$ 32,758</u>                     | <u>\$ 38,832</u>  |
| NET CASH PROVIDED BY<br>(USED IN) OPERATING ACTIVITIES   | <u>\$ (9,961)</u>                            | <u>\$ 26,834</u>                     | <u>\$ 16,873</u>  |

The accompanying notes are an integral part of the financial statements.

STATEMENT OF FIDUCIARY NET ASSETS - AGENCY FUND

TOWNSHIP OF WATERSMEET, MICHIGAN

March 31, 2004

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| ASSET                         |                   |
|-------------------------------|-------------------|
| Cash in bank                  | <u>\$ 401,213</u> |
|                               |                   |
| LIABILITIES                   |                   |
| Due other funds               | \$ 364,097        |
| Undistributed tax collections | <u>37,116</u>     |
|                               | <u>\$ 401,213</u> |

The accompanying notes are an integral part  
of the financial statements.

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS - PENSION TRUST FUND

TOWNSHIP OF WATERSMEET, MICHIGAN

Year ended March 31, 2004

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|   |             |
|---|-------------|
| Deductions - transfers of member contributions to<br>Simplified Employee Pension (SEP) accounts | \$ (86,335) |
|---|-------------|

|  |               |
|--|---------------|
| Net assets held in trust for benefits at April 1, 2003 | <u>86,335</u> |
|--|---------------|

|  |             |
|--|-------------|
| NET ASSETS HELD IN TRUST<br>FOR BENEFITS AT MARCH 31, 2004 | \$ <u>0</u> |
|--|-------------|

The accompanying notes are an integral part  
of the financial statements.



NOTES  
TO  
FINANCIAL  
STATEMENTS

NOTES TO FINANCIAL STATEMENTS  
TOWNSHIP OF WATERSMEET, MICHIGAN

March 31, 2004

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NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Watersmeet Township operates under an elected Board of Trustees. The financial statements of the Township have been prepared in conformity with generally accepted accounting principles as applied to governmental units. The Governmental Accounting Standards Board is the accepted standard-setting body for establishing governmental accounting and financial-reporting principles. The more significant of the Township's accounting policies are described below.

Financial Reporting Entity

In conformity with generally accepted accounting principles, other autonomously operated governmental organizations are not considered to be part of the Township financial-reporting entity. The criteria established for determining the various governmental organizations to be included as component units in the Township's financial statements include oversight responsibility, scope of public service and special financing relationships.

On this basis, the financial statements of the local school district and volunteer fire association are not included as component units in the financial statements of the Township. Educational services are provided to citizens through the local school district, which is a separate governmental entity. The Watersmeet Township Volunteer Firefighters' Association is organized as a separate nonprofit entity.

Basis of Presentation

Government-wide Financial Statements

The Township government-wide financial statements (Statement of Net Assets and Statement of Activities) report information on all of the activities of the Township except for the fiduciary activities. The Township General Fund is considered to be a governmental activity and its enterprise funds business-type activities. Interfund activity including operating transfers between activities has been eliminated in the Government-wide financial statements.

Fund-based Financial Statements

Separate financial statements are provided on the basis of funds, each of which is considered a separate fiscal and accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures. Resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. Governmental, business-type and fiduciary funds are provided. The various fund types are grouped in the financial statements as major funds or nonmajor funds. The Township reports the General Fund, Water Supply Fund and Sewage Disposal System Fund as major funds. There are no nonmajor funds.

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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### NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### Fund-based Financial Statements (Continued)

General Fund - The General Fund is the general operating fund of the Township. It is used to account for all financial resources except those required to be accounted for in another fund. The fund includes the general operating expenditures of the Township. Revenues are derived primarily from property taxes, state and federal grants and various local sources.

#### Proprietary Fund Types

These funds account for operations that are organized to be self-supporting through user charges and include Enterprise Funds.

Enterprise Funds - Water Supply and Sewage Disposal System Funds are used to account for operations of the water and the sewage systems in a manner similar to private business enterprises, where the intent of the Township is that the expenses, including depreciation, of providing services to the general public on a continuing basis be financed or recovered primarily through user charges.

#### Fiduciary Fund Types

Agency Fund - The Tax Collection Fund is used to account for assets held by the Township in a trustee capacity or as an agent for other governments and/or other funds. This fund is custodial in nature and does not involve measurement of results of operations.

Pension Trust Fund - The Pension Trust Fund is used to account for assets of the Township's defined contribution pension plan. During the year ended March 31, 2004, all assets of the Pension Trust Fund were transferred to the Simplified Employee Pension Plan (SEP) accounts of each employee.

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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### NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### Basis of Accounting

##### Government-wide Financial Statements

The Government-wide financial statements report all financial and capital assets, short and long-term liabilities, revenues, expenses, gains and losses using the economic resources measurement focus and the accrual basis of accounting. All revenue is recorded when earned and expenses are recorded when a liability is incurred.

The Statement of Activities reports net cost information based on the Township's functions. Direct expenses are listed by function with program revenues for each function offset against those expenses. Program revenues include charges for services that are fees and other charges to the users or recipients of the services the Township provides. Program revenues also include operating grants and contributions that are restricted for a particular purpose. Property taxes, nonrestricted state and federal aid and other revenues that are not program revenues are reported as general revenues.

##### Fund-based Financial Statements

Governmental fund types and Agency Funds use the modified accrual basis of accounting and the flow of expendable financial resources (measurement focus). Under the modified accrual basis of accounting, revenues are recorded when all applicable eligibility requirements are met and resources are available (often referred to as "susceptible to accrual"). Revenues are available when revenues are collectible during the period and the actual collection will occur either (a) during the current period or (b) after the end of the period but in time to pay fund liabilities. The Township considers revenues to be available if they are expected to be collected within 60 days of the end of the year, except that tax revenues, fees and nontax revenues are recognized when received. Grants, entitlements and shared revenues are recorded when they are susceptible to accrual. Expenditure-based grants are recorded as revenue when all applicable eligibility requirements of the grants are met and resources are available. Expenditures, if measurable, are recorded when they have used or are expected to use current expendable financial resources, except unmatured interest on general long-term debt is recorded when due.

Proprietary fund types and Pension Trust Fund use the accrual basis of accounting and the flow of all economic resources (measurement focus). This basis of accounting and measurement focus emphasizes the measurement of net income similar to the approach used by commercial enterprises; revenues are recorded when earned and expenses are recorded when incurred. Under this basis of accounting and measurement focus, the Township applies (a) all GASB pronouncements and (b) FASB Statements and Interpretations, APB Opinions and Accounts Research Bulletins issued on or before November 30, 1989, except those that conflict with a GASB pronouncement.

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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### NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### Budgets and the Budgetary Process

The Township Board adopts an annual operating budget, which can be amended by the Board throughout the year. Formal budgetary accounting is employed as a management control for all funds of the Township; however, a legal budget is adopted only for the General Fund. The budget is adopted on the same basis of accounting as is used to reflect actual revenues and expenditures.

At the fund level, actual expenditures cannot exceed budgeted appropriations; however, with proper approval by the Township Board, budgetary transfers between departments can be made. The budgeted financial statements represented in this report reflect the final budget authorization and all budget amendments approved by the Board during the year. Budgets are adopted on the functional level and lapse at the end of the year.

#### Receivables

Credit is extended to customers of the Enterprise Funds and to various units of government by the General Fund. All receivables are reported at their gross value. No allowance for uncollectible accounts is included in the financial statements as uncollectible accounts are few.

#### Due To and Due From Other Funds

Interfund receivables and payables arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed.

#### Investment in Capital Assets, Net of Related Debt

This is a portion of net assets of the Township that consists of capital assets, net of accumulated depreciation and reduced by long-term liabilities for notes, bonds and other debt attributable to the acquisition, construction or improvement of those assets.

#### Restricted Assets

Net assets are restricted when there are constraints placed on their use by external parties or by statute. The Enterprise Funds, because of certain bond covenants and Board action, are required to establish and maintain prescribed amounts of cash that can be used only to service outstanding debt and to pay for replacement of the utility plant assets.

#### Unrestricted Net Assets

Net assets not meeting either criteria above are considered unrestricted.

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

### NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### Capital Assets and Depreciation

Capital assets include land and improvements, buildings, furniture and fixtures, equipment, fire trucks and vehicles and are reported in the Government-wide financial statements. Capital assets are defined by the Township as assets with an acquisition cost of more than \$1,000 or betterments totaling \$10,000 with an estimated useful life in excess of five years. Assets meeting this criteria are recorded at historical cost or estimated historical costs if the amount is not known. Any donated capital assets are recorded at estimated fair market value at the date of donation. The costs of capital assets are charged to expense using an annual allocation of depreciation expense. Taking the depreciable cost of an asset and dividing that cost by its estimated useful life calculates the annual expense. The expense is recorded on the Government-wide Statement of Activities and included as a direct expense of an identifiable function if the assets sole purpose can be identified as being for that function. Depreciation expense (unallocated) is the amount of depreciation expense that cannot be charged to any particular function.

The capital assets are depreciated using the straight-line method over the following useful lives:

|                               |                 |
|-------------------------------|-----------------|
| Land                          | Not depreciated |
| Buildings and improvements    | 25-50 years     |
| Office furniture and fixtures | 5-20 years      |
| Fire equipment                | 20 years        |
| Other equipment               | 10 years        |

#### Long-Term Debt

Long-term liabilities for revenue bonds are reported in the appropriate Enterprise Fund. The note payable to USDA Rural Development is reported in the Government-wide financial statements as a liability of the General Fund.

#### Compensated Absences

Township employees covered by a union agreement are entitled to compensate sick pay based on their length of employment. Compensated absences accumulate at 5 1/2 hours for each month of service and are accrued when they are earned. Unused sick leave may be accumulated for a maximum of 45 days.

If an employee has 10 years or more of service and retires, the employee will be paid at 100% of their prevailing rate of pay for all unused sick leave. Otherwise, no payment will be made for unused sick leave upon termination of employment.

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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### NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### Pensions

The provision for pension cost is recorded on an accrual basis, and the Township's policy is to fund pension costs as they accrue.

#### Fund Equity

The unreserved fund equity for governmental funds represent the amount available for budgeting future operations.

#### Property Tax Revenues

Properties are assessed as of December 31 and the related property taxes become a lien on December 1 of the following year. These taxes are due on February 14 of the ensuing year with the final collection date of February 28 before they are added to the delinquent rolls. The Township records property taxes as a receivable and as a deferred revenue on December 1; the property taxes are then recognized as revenue as collections are made, when monies are available for use to finance Township operations. Delinquent real property taxes of the Township and all other local units are purchased annually by the County.

#### Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

#### Accounting Change

Effective April 1, 2003, the Township implemented the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* (GASB No. 34). Significant changes to the Township's financial statements as a result of GASB No. 34 are as follows:

Management Discussion and Analysis – provides analysis of the Township's overall financial position and results of operations as reported by the Township's management.

Government-wide financial statements – Statement of Net Assets and Statement of Activities are prepared using the full accrual basis of accounting that includes all of the Township's activities.

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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### NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### Accounting Change (Continued)

Capital assets – recorded in the governmental activities statement of net assets at March 31, 2004 are \$1,034,027 along with \$374,076 of accumulated depreciation of those capital assets. The March 31, 2003 financial statements reported fixed assets in the General Fixed Assets Account Group (GFAAG) that has been eliminated for reporting purposes. No change was reported in the historical cost of the assets from the GFAAG to the current April 1, 2003 beginning capital assets balance.

Long-term liabilities – recorded in the governmental activities statement of net assets are a note payable and compensated absences not required to be paid until one year from the current period end date of March 31, 2004. These were previously reported by the Township in the General Long-term Debt Account Group that has been eliminated with the GASB No. 34 reporting format.

Major and Nonmajor funds – fund-based financial statements focus on major funds rather than fund-types. Major funds are determined based on the comparison of activity of individual governmental funds to total governmental fund activity.

Contributed Capital – contributions in aid of construction are now recorded in the statement of net assets as part of “invested in capital assets, net of related debt” in the Township’s enterprise funds. These were previously reported by the Township as a separate line item of fund equity and depreciation on assets acquired by grants externally restricted for capital construction were accounted for as a reduction of contributed capital rather than being amortized as a cost of operations.



NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE B - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Compliance with Bond Covenants

The revenue bond ordinance issued by the Sewage Disposal System Fund and Board action requires the Township to segregate receipts to establish reserve accounts. Following is a summary of required reserves and funding levels at March 31, 2004:

|  | Required<br>Reserve at<br><u>March 31, 2004</u> | Balance<br>at<br><u>March 31, 2004</u> |
|--|---|--|
| Sewer Disposal System Fund:                    |   |  |
| Rural Economic and Community Development Sewer |   |  |
| Revenue Bonds, dated March 1, 1988:            |   |  |
| Bond Reserve Account                           | \$ 24,000                                       | \$ 28,569                              |
| Replacement Fund                               | <u>7,500</u>                                    | <u>7,500</u>                           |
|  | \$ 31,500                                       | \$ 36,069                              |
| Water Utility Fund -                           |   |  |
| Capital Reserve Account                        | <u>                    </u>                     | <u>2,304</u>                           |
| TOTALS   | \$ <u>31,500</u>                                | \$ <u>38,373</u>                       |

Public Act 275 of 1980 Disclosure

The Township did not have a deficit in any fund as of March 31, 2004.

Public Act 621 of 1978 Disclosure

Public Act 621 of 1978 requires local units of government to prepare and to monitor their fiscal year budgets in accordance therewith. The Act provides that a Township must amend its budget if it becomes apparent that the Township's actual revenues will deviate from those budgeted, or if the Township's expenditures will exceed the amounts appropriated. During the year ended March 31, 2004, the Township monitored and amended its budget and was in substantial compliance with the Act except for the following:

| <u>General Fund</u>     | <u>Budget</u> | <u>Actual</u> | <u>Unfavorable<br/>Variance</u> |
|-------------------------|---------------|---------------|---------------------------------|
| Federal grant revenues  | \$ 98,000     | \$ 78,583     | \$ (19,417)                     |
| Other revenues          | 209,782       | 176,661       | (33,121)                        |
| Proceeds from borrowing | 164,985       | 140,000       | (24,985)                        |

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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### NOTE C - CASH INFORMATION

All deposits were made in a bank insured by federal depository insurance. Deposits were made in accordance with State of Michigan statutes and under authorization of the Township Board.

At March 31, 2004, bank deposits, including restricted cash, totaled \$731,446. \$200,000 was covered by federal depository insurance and \$531,446 exceeded federal depository insurance coverage.

General Fund cash included the following accounts:

|                  |                   |
|------------------|-------------------|
| Operating        | \$ 13,754         |
| Fire truck       | 225               |
| Zoning permits   | 1,109             |
| Building permits | 5,159             |
| Roads            | 122,190           |
| Petty cash       | <u>159</u>        |
|                  | <u>\$ 142,596</u> |

### NOTE D - ACCOUNTS RECEIVABLE

General Fund accounts receivable at March 31, 2004 consisted of Class III gaming monies due from Lac View Desert Band of Chippewa Indians.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE E - CAPITAL ASSETS

Following is a summary of changes in capital assets during the year ended March 31, 2004:

|                                      | Balance at<br>April 1,<br><u>2003</u> | <u>Additions</u>  | <u>Disposals</u> | Balance at<br>March 31,<br><u>2003</u> |
|--------------------------------------|---------------------------------------|-------------------|------------------|--|
| <u>Governmental Activities:</u>      |                                       |                   |                  |  |
| Assets:                              |                                       |                   |                  |  |
| Land                                 | \$ 11,883                             |                   |                  | \$ 11,883                              |
| Buildings and improvements           | 560,383                               |                   |                  | 560,383                                |
| Fire equipment                       | 158,347                               | \$ 210,253        |                  | 368,600                                |
| Office furniture and fixtures        | 28,709                                | 6,942             |                  | 35,651                                 |
| Other equipment                      | 49,508                                | 8,001             |                  | 57,509                                 |
|                                      | <u>\$ 808,830</u>                     | <u>\$ 225,196</u> |                  | <u>\$ 1,034,026</u>                    |
| Less accumulated depreciation        | <u>360,373</u>                        | <u>13,702</u>     |                  | <u>374,075</u>                         |
| Net                                  | \$ 448,457                            | \$ 211,494        |                  | \$ 659,951                             |
| <u>Business-type Activities:</u>     |                                       |                   |                  |  |
| Water Supply Fund:                   |                                       |                   |                  |  |
| Land                                 | \$ 3,387                              |                   |                  | \$ 3,387                               |
| Waterwells, houses and appurtenances | 88,551                                |                   |                  | 88,551                                 |
| Water storage tank                   | 29,517                                |                   |                  | 29,517                                 |
| Water distribution mains             | 335,912                               |                   |                  | 335,912                                |
| Construction in progress             |                                       | \$ 39,856         |                  | 39,856                                 |
|                                      | <u>\$ 457,367</u>                     | <u>\$ 39,856</u>  |                  | <u>\$ 497,223</u>                      |
| Less accumulated depreciation        | <u>253,751</u>                        | <u>11,956</u>     |                  | <u>265,707</u>                         |
| Net                                  | \$ 203,616                            | \$ 27,900         |                  | \$ 231,516                             |
| Sewage Disposal System:              |                                       |                   |                  |  |
| Land                                 | \$ 800                                |                   |                  | \$ 800                                 |
| Sewage collection mains              | 133,027                               | \$ 27,959         |                  | 160,986                                |
| Wastewater treatment facilities      | 1,324,782                             |                   |                  | 1,324,782                              |
|                                      | <u>\$ 1,458,609</u>                   | <u>\$ 27,959</u>  |                  | <u>\$ 1,486,568</u>                    |
| Less accumulated depreciation:       | <u>612,991</u>                        | <u>36,755</u>     |                  | <u>649,746</u>                         |
| Net                                  | \$ 845,618                            | \$ (8,796)        |                  | \$ 836,822                             |
| Total Business-Type Activities       | <u>\$ 1,049,234</u>                   | <u>\$ 19,104</u>  | <u>\$ 0</u>      | <u>\$ 1,068,338</u>                    |
| TOTAL GOVERNMENT                     | <u>\$ 1,497,691</u>                   | <u>\$ 230,598</u> | <u>\$ 0</u>      | <u>\$ 1,728,289</u>                    |

# NOTES TO FINANCIAL STATEMENTS (CONTINUED)

## NOTE F - PROPERTY TAXES

The Township bills and collects its own property taxes and also collects current rolls for the County, School District, State Education Tax and Intermediate School District. The delinquent real property taxes of the Township for the 2003 levy are to be purchased by the County of Gogebic.

One taxpayer accounts for approximately 20 percent of the assessed valuation and tax levy of the Township.

Costs incurred for administrative costs in assessing and collecting property taxes exceed receipts from charging the property tax administrative fee.

A summary of the 2003 tax roll follows:

|                              | <u>Mills</u>   | <u>Levy</u>         | <u>Taxes<br/>Returned<br/>Delinquent</u> | <u>Net Tax<br/>Collections</u> |
|------------------------------|----------------|---------------------|--|--------------------------------|
| Intermediate School District | 3.4100         | \$ 343,808          | \$ 17,519                                | \$ 326,289                     |
| County                       | 11.0013        | 1,109,156           | 80,226                                   | 1,028,930                      |
| State Education Tax          | 5.0000         | 504,135             | 25,688                                   | 478,447                        |
| School                       | 21.8148        | 1,769,969           | 81,342                                   | 1,688,627                      |
| Township                     | <u>3.4300</u>  | <u>345,825</u>      | <u>25,014</u>                            | <u>320,811</u>                 |
| TOTALS                       | <u>44.6561</u> | <u>\$ 4,072,893</u> | <u>\$ 229,789</u>                        | <u>\$ 3,843,104</u>            |
| Taxable valuation:           |                |                     |  |                                |
| Homestead                    |                |                     |  | \$ 25,276,919                  |
| Non-homestead                |                |                     |  | <u>75,418,539</u>              |
|                              |                |                     |  | <u>\$ 100,695,458</u>          |

## NOTE G - WATER SUPPLY AND SEWAGE DISPOSAL SYSTEM JUNIOR LIEN REVENUE BOND

The Township of Watersmeet, Michigan, adopted a resolution on March 15, 1988, authorizing the issuance of a \$336,000 Water Supply and Sewage Disposal System Junior Lien Revenue Bond, dated March 1, 1988.

The bond consists of one single fully-registered nonconvertible bond of \$336,000 and was purchased by Rural Economic and Community Development (formerly Farmers Home Administration). The bond bears an interest rate of 6-1/8 percent per annum. Interest is payable on March 1 and September 1, and principal is payable each March 1 until maturity in the year 2028. Principal and interest are payable from the net revenues derived from operation of the sewage system.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE G - WATER SUPPLY AND SEWAGE DISPOSAL SYSTEM JUNIOR LIEN REVENUE  
BOND (CONTINUED)

At March 31, 2004, the bond principal and interest payments were current. The principal balance outstanding of \$305,000 is accounted for as a liability of the Sewage Disposal System Fund. The principal balance outstanding at March 31, 2003, was \$310,000.

Debt service charges until maturity are:

| <u>Year ending March 31,</u> | <u>Principal</u>  | <u>Interest</u>   | <u>Total</u>      |
|------------------------------|-------------------|-------------------|-------------------|
| 2005                         | \$ 5,000          | \$ 18,681         | \$ 23,681         |
| 2006                         | 6,000             | 18,375            | 24,375            |
| 2007                         | 6,000             | 18,008            | 24,008            |
| 2008                         | 6,000             | 17,640            | 23,640            |
| 2009                         | 7,000             | 17,273            | 24,273            |
| 2010                         | 7,000             | 16,844            | 23,844            |
| 2011                         | 8,000             | 16,415            | 24,415            |
| 2012                         | 8,000             | 15,925            | 23,925            |
| 2013                         | 9,000             | 15,435            | 24,435            |
| 2014                         | 9,000             | 14,884            | 23,884            |
| 2015                         | 10,000            | 14,333            | 24,333            |
| 2016                         | 11,000            | 13,720            | 24,720            |
| 2017                         | 12,000            | 13,046            | 25,046            |
| 2018                         | 13,000            | 12,311            | 25,311            |
| 2019                         | 14,000            | 11,515            | 25,515            |
| 2020                         | 15,000            | 10,658            | 25,658            |
| 2021                         | 16,000            | 9,739             | 25,739            |
| 2022                         | 17,000            | 8,759             | 25,759            |
| 2023                         | 18,000            | 7,718             | 25,718            |
| 2024                         | 19,000            | 6,615             | 25,615            |
| 2025                         | 20,000            | 5,451             | 25,451            |
| 2026                         | 22,000            | 4,226             | 26,226            |
| 2027                         | 22,000            | 2,879             | 24,879            |
| 2028                         | <u>25,000</u>     | <u>1,531</u>      | <u>26,531</u>     |
|                              | <u>\$ 305,000</u> | <u>\$ 291,981</u> | <u>\$ 596,981</u> |

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE H – NOTE PAYABLE TO USDA RURAL DEVELOPMENT

On April 11, 2003, the Township borrowed \$140,000 from USDA Rural Development to finance the purchase of a fire truck. The note bears an interest rate of 4.5% and is being amortized over a 15-year period. During the year ended March 31, 2004, the Township paid principal payments in excess of the USDA payment schedule.

Debt service charges until maturity are:

| <u>Year ending March 31,</u> | <u>Principal</u>  | <u>Interest</u>  | <u>Total</u>      |
|------------------------------|-------------------|------------------|-------------------|
| 2005                         |                   | \$ 5,731         | \$ 5,731          |
| 2006                         | \$ 6,635          | 5,731            | 12,366            |
| 2007                         | 7,500             | 5,445            | 12,945            |
| 2008                         | 7,500             | 5,108            | 12,608            |
| 2009                         | 7,500             | 4,770            | 12,270            |
| 2010                         | 8,500             | 4,432            | 12,932            |
| 2011                         | 9,500             | 4,050            | 13,550            |
| 2012                         | 10,000            | 3,623            | 13,623            |
| 2013                         | 10,000            | 3,172            | 13,172            |
| 2014                         | 11,000            | 2,723            | 13,723            |
| 2015                         | 12,000            | 2,228            | 14,228            |
| 2016                         | 12,500            | 1,687            | 14,187            |
| 2017                         | 12,500            | 1,125            | 13,625            |
| 2018                         | <u>12,500</u>     | <u>563</u>       | <u>13,063</u>     |
|                              | <u>\$ 127,635</u> | <u>\$ 50,388</u> | <u>\$ 178,023</u> |

NOTE I - INTERFUND RECEIVABLES AND PAYABLES

The amounts of interfund receivables and payables at March 31, 2004, were as follows:

| <u>Fund</u>       | <u>Interfund<br/>Receivable</u> | <u>Fund</u>    | <u>Interfund<br/>Payable</u> |
|-------------------|---------------------------------|----------------|------------------------------|
| General           | \$ 364,097                      | Tax Collection | \$ 364,097                   |
| Water Supply Fund | <u>916</u>                      | General        | <u>916</u>                   |
|                   | <u>\$ 365,013</u>               |                | <u>\$ 365,013</u>            |

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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### NOTE J - DEFINED CONTRIBUTION PENSION PLAN

Effective October 1987, the Township adopted a defined contribution pension plan, administered by Michigan Township Association, which provided pension benefits for all of the Township's elected officials and full-time employees who have attained age 18 but are not more than 75 years old. Employees are eligible to participate from the date of employment. The Township is required to contribute an amount equal to ten percent of the employee's base salary each year. The Township's contributions for each employee and investment earnings allocated to the employee's account are fully vested immediately. Normal retirement age is age 65, or if age 56 or older at date of entry, completion of 10 years of participation in the Plan.

Effective April 2003, all Pension Trust Fund investments were transferred to American Express Financial Advisors, Inc. and placed into Simplified Employee Pension Plans (SEP) for employees. Because the Township no longer acts as the Plan fiduciary, the Pension Trust Fund investments are no longer reported as assets of the Township. Similar eligibility, contribution rates and vesting terms as the former defined contribution plan apply to the SEP.

The Township's total payroll for the fiscal year ended March 31, 2004, was \$278,527. The Township's contributions were calculated using the base salary amount of \$164,320. The Township's contribution for the year ended March 31, 2004 amounted to \$16,432.

### NOTE K - RISK MANAGEMENT

The Township is exposed to various risks of losses related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Township has obtained coverage from commercial insurance companies. The Township has comprehensive general liability coverage of \$3,000,000 per occurrence and a \$5,000,000 aggregate limit, with no deductible amount, and wrongful acts coverage with a \$4,000,000 aggregate limit, with no deductible amount.

All risk management activities are accounted for in the General Fund and Enterprise Funds of the Township. Expenditures and claims are recognized when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. In determining claims, events that might create claims, but for which none have been reported, are considered.

Management estimates that the amount of actual or potential claims against the Township as of March 31, 2004, will not materially affect the financial condition of the Township. Therefore, the financial statements contain no provision for estimated claims. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years.

# NOTES TO FINANCIAL STATEMENTS (CONTINUED)

## NOTE L – STATE CONSTRUCTION CODE ACT INFORMATION

During the year ended March 31, 2004, the Township collected construction code service fees of \$16,971 and spent \$16,942 for enforcing the code. Because the fee structure is not intended to recover the full cost of enforcement and the Township has the ability to track the full costs and revenues, a separate fund has not been created to account for these monies. In prior years, the township spent more for enforcing the code than it collected in fees.

## NOTE M - SEGMENT INFORMATION FOR ENTERPRISE FUNDS

The Township maintains two Enterprise Funds - one to provide a water supply system and one to provide a sewage disposal system. Segment information not presented in the basic financial statements for the year ended March 31, 2004, follows:

|                                | Water<br>Supply<br><u>Fund</u> | Sewage<br>Disposal<br>System<br><u>Fund</u> | Total<br>Enterprise<br><u>Funds</u> |
|--------------------------------|--------------------------------|---|-------------------------------------|
| Tax revenues                   | \$ 0                           | \$ 0  | \$ 0                                |
| Operating transfers in (out)   | 0                              | 0   | 0                                   |
| Current capital contributions  | 0                              | 0   | 0                                   |
| Land, buildings and equipment: |                                |   |                                     |
| Additions                      | \$ 39,856                      | \$ 27,959                                   | \$ 67,815                           |
| Deletions                      | 0                              | 0   | 0                                   |

## NOTE N – TAX TRIBUNAL AND PROPERTY USE CASES

The Township is involved in two pending Michigan Tax Tribunal cases. These cases are being held in abeyance and the state tax commission has been added as a party respondent. Currently, the Township cannot make an evaluation regarding the likelihood of an unfavorable outcome or an estimate of the amount of potential loss.

The Township is also involved in three zoning lawsuits. The Township does not believe an adverse outcome in any of the lawsuits is likely and has therefore not made an estimate of the amount of potential loss.



NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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NOTE O – COMMITMENT

During the year ended March 31, 2002, the Township signed a 5-year contract for police services to be furnished by Lac Vieux Desert. The contract provides the Township make annual payments to Lac Vieux Desert of \$88,000 a year. It is expected that the Township will finance these payments with Class III gaming revenues to be received from the Lac Vieux Desert Band of Indians.

NOTE P – OPERATING LEASE

On October 15, 2002, the Township entered into a 3-year lease agreement to rent a Panasonic copy machine at a monthly rent of \$216. The lease is being accounted for as an operating lease. Future minimum rent commitments as of March 31, 2004, are as follows:

Year ending:

|                |                 |
|----------------|-----------------|
| March 31, 2005 | \$ 2,591        |
| March 31, 2006 | <u>1,512</u>    |
|                | <u>\$ 4,103</u> |

REQUIRED  
SUPPLEMENTAL  
INFORMATION

# BUDGETARY COMPARISON SCHEDULE - GENERAL FUND

## TOWNSHIP OF WATERSMEET, MICHIGAN

Year ended March 31, 2004

|   | Original<br>Budget | Final<br>Budget     | Actual            |
|---|--------------------|---------------------|-------------------|
| Revenues:   |                    |                     |                   |
| Taxes   | \$ 387,000         | \$ 365,000          | \$ 400,082        |
| Licenses and permits  | 27,300             | 27,300              | 24,651            |
| Federal grants  |                    | 98,000              | 78,583            |
| State grants  | 100,450            | 103,000             | 103,345           |
| Charges for services  | 9,500              | 7,500               | 23,861            |
| Interest and rents  | 26,745             | 32,600              | 29,019            |
| Other revenues  | <u>107,800</u>     | <u>209,782</u>      | <u>176,661</u>    |
| TOTAL REVENUES  | \$ 658,795         | \$ 843,182          | \$ 836,202        |
| Expenditures:   |                    |                     |                   |
| Current:  |                    |                     |                   |
| Legislative   | \$ 31,730          | \$ 47,067           | \$ 31,607         |
| General government  | 208,055            | 266,588             | 238,164           |
| Health and welfare  | 1,750              | 2,469               | 2,760             |
| Public safety   | 157,093            | 158,716             | 147,894           |
| Recreation and parks  | 11,502             | 13,042              | 19,521            |
| Public works  | 253,845            | 261,074             | 153,387           |
| Other functions   | 45,012             | 73,539              | 80,916            |
| Capital outlay  | 60,000             | 271,908             | 225,196           |
| Debt service  | <u></u>            | <u>15,000</u>       | <u>15,985</u>     |
| TOTAL EXPENDITURES  | \$ <u>768,987</u>  | \$ <u>1,109,403</u> | \$ <u>915,430</u> |
| (DEFICIENCY) OF<br>REVENUES OVER EXPENDITURES                                       | \$ (110,192)       | \$ (266,221)        | \$ (79,228)       |
| Other financing source - proceeds from borrowing                                    | <u></u>            | <u>164,985</u>      | <u>140,000</u>    |
| EXCESS (DEFICIENCY) OF<br>REVENUES AND OTHER FINANCING<br>SOURCES OVER EXPENDITURES | \$ (110,192)       | \$ (101,236)        | \$ 60,772         |
| Fund balance at April 1, 2003   | <u>389,361</u>     | <u>389,361</u>      | <u>389,361</u>    |
| FUND BALANCE AT MARCH 31, 2004  | \$ <u>279,169</u>  | \$ <u>288,125</u>   | \$ <u>450,133</u> |

The accompanying notes are an integral part of the financial statements.

OTHER  
FINANCIAL  
INFORMATION

## STATEMENT OF REVENUES - ESTIMATED AND ACTUAL - GENERAL FUND

## TOWNSHIP OF WATERSMEET, MICHIGAN

Year ended March 31, 2004

|  | Estimated<br>Revenue | Actual<br>Revenue | Variance<br>Favorable<br>(Unfavorable) |
|--|----------------------|-------------------|--|
| Taxes:                                   |                      |                   |  |
| Current property taxes                   | \$ 302,000           | \$ 320,811        | \$ 18,811                              |
| Delinquent property taxes                | 20,000               | 26,720            | 6,720                                  |
| Payment in lieu of tax                   | 5,000                | 2,789             | (2,211)                                |
| Commercial forest reserve                | 6,000                | 7,919             | 1,919                                  |
| Swamp tax                                |                      | 665               | 665                                    |
| Property tax administrative fees         | <u>32,000</u>        | <u>41,178</u>     | <u>9,178</u>                           |
|  | \$ 365,000           | \$ 400,082        | \$ 35,082                              |
| Licenses and permits:                    |                      |                   |  |
| Building                                 | \$ 16,686            | \$ 16,971         | \$ 285                                 |
| Zoning                                   | <u>10,614</u>        | <u>7,680</u>      | <u>(2,934)</u>                         |
|  | \$ 27,300            | \$ 24,651         | \$ (2,649)                             |
| Federal grants:                          |                      |                   |  |
| National Forest                          | \$ 27,000            | \$ 38,379         | \$ 11,379                              |
| Federal Emergency Management Authority   | 31,000               | 204               | (30,796)                               |
| Rural Economic and Community Development | <u>40,000</u>        | <u>40,000</u>     | <u></u>                                |
|  | \$ 98,000            | \$ 78,583         | \$ (19,417)                            |
| State grants - State revenue sharing     | 103,000              | 103,345           | 345                                    |
| Charges for services:                    |                      |                   |  |
| Cemetery                                 | \$ 1,000             | \$ 1,200          | \$ 200                                 |
| Transfer station                         | 6,500                | 7,122             | 622                                    |
| Tax collection                           |                      | 15,465            | 15,465                                 |
| Other                                    | <u></u>              | <u>74</u>         | <u>74</u>                              |
|  | \$ 7,500             | \$ 23,861         | \$ 16,361                              |
| Interest and rents:                      |                      |                   |  |
| Interest earned                          | \$ 8,000             | \$ 4,319          | \$ (3,681)                             |
| Rents                                    | <u>24,600</u>        | <u>24,700</u>     | <u>100</u>                             |
|  | \$ 32,600            | \$ 29,019         | \$ (3,581)                             |

STATEMENT OF REVENUES - ESTIMATED AND ACTUAL - GENERAL FUND (CONTINUED)

|  | Estimated<br>Revenue | Actual<br>Revenue | Variance<br>Favorable<br>(Unfavorable) |
|--|----------------------|-------------------|--|
| Other revenues:                                  |                      |                   |  |
| Class III gaming revenues                        | \$ 197,000           | \$ 167,230        | \$ (29,770)                            |
| Wage reimbursements                              | 9,800                | 8,422             | (1,378)                                |
| Election reimbursements                          | 2,450                | 661               | (1,789)                                |
| Miscellaneous                                    | <u>532</u>           | <u>348</u>        | <u>(184)</u>                           |
|  | <u>\$ 209,782</u>    | <u>\$ 176,661</u> | <u>\$ (33,121)</u>                     |
| TOTAL REVENUES                                   | \$ 843,182           | \$ 836,202        | \$ (6,980)                             |
| Other financing source - proceeds from borrowing | <u>164,985</u>       | <u>140,000</u>    | <u>(24,985)</u>                        |
| TOTAL REVENUES AND<br>OTHER FINANCING SOURCE     | <u>\$ 1,008,167</u>  | <u>\$ 976,202</u> | <u>\$ (31,965)</u>                     |

The accompanying notes are an integral part of the financial statements.

## STATEMENT OF EXPENDITURES AND COMPARISON WITH BUDGET - GENERAL FUND

## TOWNSHIP OF WATERSMEET, MICHIGAN

Year ended March 31, 2004

|                              | Expenditures |           | Variance                   |
|------------------------------|--------------|-----------|----------------------------|
|                              | Budget       | Actual    | Favorable<br>(Unfavorable) |
| LEGISLATIVE                  |              |           |                            |
| Township Board:              |              |           |                            |
| Salaries:                    |              |           |                            |
| Trustees                     | \$ 3,600     | \$ 3,626  | \$ (26)                    |
| Secretary                    | 13,000       | 14,080    | (1,080)                    |
| Contributions                | 5,000        | 3,331     | 1,669                      |
| Memberships                  | 7,500        | 2,653     | 4,847                      |
| Supplies                     | 2,100        | 3,072     | (972)                      |
| Equipment lease              | 2,600        | 2,591     | 9                          |
| Pension                      | 6,267        | 1,452     | 4,815                      |
| Communications               | 7,000        |           | 7,000                      |
| Miscellaneous                |              | 802       | (802)                      |
| TOTAL LEGISLATIVE            | \$ 47,067    | \$ 31,607 | \$ 15,460                  |
| GENERAL GOVERNMENT           |              |           |                            |
| Supervisor:                  |              |           |                            |
| Salary                       | \$ 13,039    | \$ 13,039 |                            |
| Pension                      | 1,304        | 1,304     |                            |
| Auto expense allowance       | 1,200        | 40        | \$ 1,160                   |
| Supplies                     | 900          | 708       | 192                        |
| Training                     | 1,500        | 450       | 1,050                      |
|                              | \$ 17,943    | \$ 15,541 | \$ 2,402                   |
| Elections:                   |              |           |                            |
| Salaries                     | \$ 1,241     | \$ 2,991  | \$ (1,750)                 |
| Supplies                     | 500          | 39        | 461                        |
| Auto expense allowance       | 150          | 72        | 78                         |
| Training                     | 700          |           | 700                        |
|                              | \$ 2,591     | \$ 3,102  | \$ (511)                   |
| Attorney - retainer and fees | 21,094       | 21,769    | (675)                      |
| Assessor:                    |              |           |                            |
| Salaries                     | \$ 24,000    | \$ 24,000 |                            |
| Supplies                     | 2,000        | 2,211     | \$ (211)                   |
| Auto expense allowance       | 1,000        | 897       | 103                        |
| Training                     | 500          | 50        | 450                        |
|                              | \$ 27,500    | \$ 27,158 | \$ 342                     |

STATEMENT OF EXPENDITURES AND COMPARISON WITH BUDGET -  
GENERAL FUND (CONTINUED)

|                                   | Expenditures |              | Variance                   |
|-----------------------------------|--------------|--------------|----------------------------|
|                                   | Budget       | Actual       | Favorable<br>(Unfavorable) |
| GENERAL GOVERNMENT (CONTINUED)    |              |              |                            |
| Clerk:                            |              |              |                            |
| Salaries:                         |              |              |                            |
| Clerk                             | \$ 16,764    | \$ 16,764    |                            |
| Deputy clerk                      | 4,500        | 4,471        | \$ 29                      |
| Pension                           | 1,676        | 1,706        | (30)                       |
| Training                          | 250          | 152          | 98                         |
| Supplies                          | 750          | 1,409        | (659)                      |
| Auto expense allowance            | <u>150</u>   | <u>88</u>    | <u>62</u>                  |
|                                   | \$ 24,090    | \$ 24,590    | \$ (500)                   |
| Board of review:                  |              |              |                            |
| Salaries                          | \$ 1,500     | \$ 650       | \$ 850                     |
| Auto expense allowance            | <u>280</u>   | <u>197</u>   | <u>83</u>                  |
|                                   | \$ 1,780     | \$ 847       | \$ 933                     |
| Audit - professional fees         | 7,000        | 5,675        | 1,325                      |
| Treasurer:                        |              |              |                            |
| Salaries:                         |              |              |                            |
| Treasurer                         | \$ 18,426    | \$ 18,426    |                            |
| Deputy treasurer                  | 4,500        | 3,409        | \$ 1,091                   |
| Supplies                          | 8,500        | 9,746        | (1,246)                    |
| Miscellaneous                     | 150          | 339          | (189)                      |
| Pension                           | <u>1,843</u> | <u>1,843</u> |                            |
|                                   | \$ 33,419    | \$ 33,763    | \$ (344)                   |
| Town hall and property:           |              |              |                            |
| Salaries                          | \$ 21,035    | \$ 25,260    | \$ (4,225)                 |
| Supplies                          | 8,000        | 16,191       | (8,191)                    |
| Public utilities                  | 17,500       | 16,543       | 957                        |
| Repairs                           | 2,000        | 1,927        | 73                         |
| Pension                           | 2,104        | 3,007        | (903)                      |
| Auto expense                      |              | 2,506        | (2,506)                    |
| Training                          | 2,000        |              | 2,000                      |
| Rental                            | 1,200        | 600          | 600                        |
| Miscellaneous                     | <u>150</u>   | <u>3,327</u> | <u>(3,177)</u>             |
|                                   | \$ 53,989    | \$ 69,361    | \$ (15,372)                |
| Community promotion - advertising | 2,000        | 533          | 1,467                      |



STATEMENT OF EXPENDITURES AND COMPARISON WITH BUDGET -  
GENERAL FUND (CONTINUED)

|                                | Expenditures  |               | Variance                   |
|--------------------------------|---------------|---------------|----------------------------|
|                                | Budget        | Actual        | Favorable<br>(Unfavorable) |
| GENERAL GOVERNMENT (CONTINUED) |               |               |                            |
| Cemetery:                      |               |               |                            |
| Salaries                       | \$ 5,939      | \$ 5,183      | \$ 756                     |
| Pension                        | 244           | 125           | 119                        |
| Repairs                        | 1,999         | 1,250         | 749                        |
| Supplies                       | <u>2,000</u>  | <u>36</u>     | <u>1,964</u>               |
|                                | \$ 10,182     | \$ 6,594      | \$ 3,588                   |
| Community development:         |               |               |                            |
| Contracted labor               | \$ 48,600     | \$ 16,350     | \$ 32,250                  |
| Training                       | 2,400         | 1,551         | 849                        |
| Contributions                  | 2,000         |               | 2,000                      |
| Miscellaneous                  | <u>12,000</u> | <u>11,330</u> | <u>670</u>                 |
|                                | \$ 65,000     | \$ 29,231     | \$ 35,769                  |
| TOTAL GENERAL GOVERNMENT       | \$ 266,588    | \$ 238,164    | \$ 28,424                  |
| HEALTH AND WELFARE             |               |               |                            |
| Senior meals                   | 2,469         | 2,760         | (291)                      |
| PUBLIC SAFETY                  |               |               |                            |
| Building inspector:            |               |               |                            |
| Salaries                       | \$ 15,500     | \$ 13,931     | \$ 1,569                   |
| Supplies                       | 2,500         | 1,148         | 1,352                      |
| Auto expense allowance         | 2,250         | 1,723         | 527                        |
| Miscellaneous                  | <u>600</u>    | <u>140</u>    | <u>460</u>                 |
|                                | \$ 20,850     | \$ 16,942     | \$ 3,908                   |
| Zoning board:                  |               |               |                            |
| Salaries                       | \$ 11,030     | \$ 8,620      | \$ 2,410                   |
| Auto expense allowance         | 750           | 961           | (211)                      |
| Advertising                    | 4,000         | 1,002         | 2,998                      |
| Training                       | 1,000         | 585           | 415                        |
| Supplies                       |               | 718           | (718)                      |
| Pension                        | <u>771</u>    |               | <u>771</u>                 |
|                                | \$ 17,551     | \$ 11,886     | \$ 5,665                   |
| Contracted dispatch            | 7,000         | 7,000         |                            |

STATEMENT OF EXPENDITURES AND COMPARISON WITH BUDGET -  
GENERAL FUND (CONTINUED)

|  | Expenditures  |               | Variance                   |
|--|---------------|---------------|----------------------------|
|  | Budget        | Actual        | Favorable<br>(Unfavorable) |
| PUBLIC SAFETY (CONTINUED)                              |               |               |                            |
| Fire department:                                       |               |               |                            |
| Salaries   | \$ 9,700      | \$ 8,520      | \$ 1,180                   |
| Supplies   | 3,115         | 3,775         | (660)                      |
| Public utilities                                       | 3,500         | 4,313         | (813)                      |
| Repairs  | 6,250         | 2,351         | 3,899                      |
| Hydrant rental   | 1,200         |               | 1,200                      |
| Training   | 650           | 3,134         | (2,484)                    |
| Miscellaneous  | <u>900</u>    | <u>1,973</u>  | <u>(1,073)</u>             |
|  | \$ 25,315     | \$ 24,066     | \$ 1,249                   |
| Police contract  | <u>88,000</u> | <u>88,000</u> |                            |
| TOTAL PUBLIC SAFETY                                    | \$ 158,716    | \$ 147,894    | \$ 10,822                  |
| RECREATION AND PARKS                                   |               |               |                            |
| Recreation:  |               |               |                            |
| Salaries   | \$ 8,015      | \$ 15,213     | \$ (7,198)                 |
| Pension  | 427           | 1,064         | (637)                      |
| Supplies   | 350           | 159           | 191                        |
| Public utilities                                       | 1,750         | 2,003         | (253)                      |
| Contracted services                                    | <u>2,500</u>  | <u>1,082</u>  | <u>1,418</u>               |
| TOTAL RECREATION AND PARKS                             | \$ 13,042     | \$ 19,521     | \$ (6,479)                 |
| PUBLIC WORKS   |               |               |                            |
| Highways and streets -<br>construction and maintenance | \$ 121,000    | \$ 3,085      | \$ 117,915                 |
| Street lighting  | 15,000        | 14,594        | 406                        |
| Refuse disposal:                                       |               |               |                            |
| Salaries and wages                                     | \$ 23,200     | \$ 24,820     | \$ (1,620)                 |
| Pension  | 2,320         | 2,211         | 109                        |
| Garbage haul contract                                  | 97,604        | 106,240       | (8,636)                    |
| Supplies   | 150           | 311           | (161)                      |
| Public utilities                                       | 1,500         | 1,270         | 230                        |
| Miscellaneous  | <u>300</u>    | <u>856</u>    | <u>(556)</u>               |
|  | \$ 125,074    | \$ 135,708    | \$ (10,634)                |
| TOTAL PUBLIC WORKS                                     | \$ 261,074    | \$ 153,387    | \$ 107,687                 |

STATEMENT OF EXPENDITURES AND COMPARISON WITH BUDGET -  
GENERAL FUND (CONTINUED)

|                                   | Expenditures        |                   | Variance                   |
|-----------------------------------|---------------------|-------------------|----------------------------|
|                                   | Budget              | Actual            | Favorable<br>(Unfavorable) |
| OTHER FUNCTIONS                   |                     |                   |                            |
| Workers compensation              | \$ 3,460            | \$ 10,056         | \$ (6,596)                 |
| Employer's share of payroll taxes | 15,510              | 18,485            | (2,975)                    |
| Insurance and bonds               | 36,467              | 38,763            | (2,296)                    |
| Health insurance                  | 17,442              | 13,321            | 4,121                      |
| Miscellaneous                     | <u>660</u>          | <u>291</u>        | <u>369</u>                 |
| TOTAL OTHER FUNCTIONS             | \$ 73,539           | \$ 80,916         | \$ (7,377)                 |
| CAPITAL OUTLAY                    |                     |                   |                            |
| Fire truck                        | \$ 238,995          | \$ 205,645        | \$ 33,350                  |
| Fire equipment                    | 4,500               | 4,648             | (148)                      |
| Township Board                    | 4,000               | 6,350             | (2,350)                    |
| Townhall                          | 7,000               | 6,766             | 234                        |
| Parks and recreation              | <u>17,413</u>       | <u>1,787</u>      | <u>15,626</u>              |
| TOTAL CAPITAL OUTLAY              | \$ 271,908          | \$ 225,196        | \$ 46,712                  |
| DEBT SERVICE                      |                     |                   |                            |
| Principal                         | \$ 12,000           | \$ 12,365         | \$ (365)                   |
| Interest and fees                 | <u>3,000</u>        | <u>3,620</u>      | <u>(620)</u>               |
| TOTAL DEBT SERVICE                | \$ 15,000           | \$ 15,985         | \$ (985)                   |
| TOTAL EXPENDITURES                | <u>\$ 1,109,403</u> | <u>\$ 915,430</u> | <u>\$ 193,973</u>          |

The accompanying notes are an integral part of the financial statements.

## COMBINING STATEMENTS OF NET ASSETS -

TOWNSHIP OF

|   | March 31, 2004          |                                      |                     | March 31,<br>2003   |
|---|-------------------------|--------------------------------------|---------------------|---------------------|
|   | Water<br>Supply<br>Fund | Sewage<br>Disposal<br>System<br>Fund | Combined            | Combined            |
| ASSETS  |                         |                                      |                     |                     |
| CURRENT ASSETS  |                         |                                      |                     |                     |
| Cash in bank  | \$ 18,734               | \$ 115,297                           | \$ 134,031          | \$ 212,820          |
| Accounts receivable                                     | 7,302                   | 10,449                               | 17,751              | 9,469               |
| Due from other funds                                    | <u>916</u>              | <u></u>                              | <u>916</u>          | <u>6,993</u>        |
| TOTAL CURRENT ASSETS                                    | \$ 26,952               | \$ 125,746                           | \$ 152,698          | \$ 229,282          |
| UTILITY PLANT   |                         |                                      |                     |                     |
| Utility plant in service                                | \$ 457,367              | \$ 1,486,568                         | \$ 1,943,935        | \$ 1,915,976        |
| Less allowances for depreciation                        | <u>265,707</u>          | <u>649,746</u>                       | <u>915,453</u>      | <u>866,742</u>      |
|   | \$ 191,660              | \$ 836,822                           | \$ 1,028,482        | \$ 1,049,234        |
| Construction in progress                                | <u>39,856</u>           | <u></u>                              | <u>39,856</u>       | <u></u>             |
|   | \$ 231,516              | \$ 836,822                           | \$ 1,068,338        | \$ 1,049,234        |
| OTHER ASSET   |                         |                                      |                     |                     |
| Restricted cash - bond reserve and replacement accounts | <u>2,304</u>            | <u>36,069</u>                        | <u>38,373</u>       | <u>35,933</u>       |
|   | <u>\$ 260,772</u>       | <u>\$ 998,637</u>                    | <u>\$ 1,259,409</u> | <u>\$ 1,314,449</u> |

ENTERPRISE FUNDS

WATERSMEET, MICHIGAN

|  | March 31, 2004          |                                      |                   | March 31,<br>2003 |
|--|-------------------------|--------------------------------------|-------------------|-------------------|
|  | Water<br>Supply<br>Fund | Sewage<br>Disposal<br>System<br>Fund | Combined          | Combined          |
| LIABILITIES  |                         |                                      |                   |                   |
| CURRENT LIABILITIES                                |                         |                                      |                   |                   |
| Accounts payable                                   | \$ 71                   | \$ 1,579                             | \$ 1,650          | \$ 2,296          |
| Accrued interest                                   |                         | 1,608                                | 1,608             | 1,608             |
| Advance collections                                | 839                     | 206                                  | 1,045             | 1,996             |
| Due to other funds                                 |                         |                                      |                   | 8,564             |
| Current maturity on<br>long-term debt              |                         | <u>5,000</u>                         | <u>5,000</u>      | <u>5,000</u>      |
| TOTAL CURRENT LIABILITIES                          | \$ 910                  | \$ 8,393                             | \$ 9,303          | \$ 19,464         |
| LONG-TERM DEBT                                     |                         |                                      |                   |                   |
| Revenue bonds payable                              |                         | \$ 305,000                           | \$ 305,000        | \$ 310,000        |
| Less amount classified<br>as current liability     |                         | <u>5,000</u>                         | <u>5,000</u>      | <u>5,000</u>      |
|  |                         | <u>\$ 300,000</u>                    | <u>\$ 300,000</u> | <u>\$ 305,000</u> |
| TOTAL LIABILITIES                                  | \$ <u>910</u>           | \$ <u>308,393</u>                    | <u>309,303</u>    | \$ <u>324,464</u> |
| NET ASSETS   |                         |                                      |                   |                   |
| Invested in capital assets,<br>net of related debt | \$ 231,516              | \$ 531,822                           | \$ 763,338        | \$ 739,234        |
| Restricted for debt<br>service and replacement     | 2,304                   | 36,069                               | 38,373            | 35,933            |
| Unrestricted                                       | <u>26,042</u>           | <u>122,353</u>                       | <u>148,395</u>    | <u>214,818</u>    |
| TOTAL NET ASSETS                                   | \$ <u>259,862</u>       | \$ <u>690,244</u>                    | <u>\$ 950,106</u> | \$ <u>989,985</u> |

The accompanying notes are an integral part of the financial statements.

COMBINING STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS -  
ENTERPRISE FUNDS

TOWNSHIP OF WATERSMEET, MICHIGAN

|  | Year ended March 31, 2004 |                                      |                    | Year ended<br>March 31,<br>2003 |
|--|---------------------------|--------------------------------------|--------------------|---------------------------------|
|  | Water<br>Supply<br>Fund   | Sewage<br>Disposal<br>System<br>Fund | Combined           | Combined                        |
| Operating revenues:  |                           |                                      |                    |                                 |
| Charges for services - Sales<br>(net of refunds of \$7,123 for 2003) | \$ 46,304                 | \$ 63,407                            | \$ 109,711         | \$ 80,998                       |
| Hydrant rental   |                           |                                      |                    | 9,600                           |
| <b>TOTAL OPERATING REVENUES</b>                                      | <b>\$ 46,304</b>          | <b>\$ 63,407</b>                     | <b>\$ 109,711</b>  | <b>\$ 90,598</b>                |
| Operating expenses:  |                           |                                      |                    |                                 |
| Personnel services   | \$ 20,873                 | \$ 18,361                            | \$ 39,234          | \$ 32,200                       |
| Purchase of services   | 26,596                    | 10,533                               | 37,129             | 34,713                          |
| Materials and supplies   | 2,914                     | 3,682                                | 6,596              | 24,594                          |
| Provision for depreciation   | 11,956                    | 36,755                               | 48,711             | 48,709                          |
|  | <u>\$ 62,339</u>          | <u>\$ 69,331</u>                     | <u>\$ 131,670</u>  | <u>\$ 140,216</u>               |
| <b>OPERATING LOSS</b>  | <b>\$ (16,035)</b>        | <b>\$ (5,924)</b>                    | <b>\$ (21,959)</b> | <b>\$ (49,618)</b>              |
| Nonoperating revenues (expenses):                                    |                           |                                      |                    |                                 |
| Interest earned  | \$ 245                    | \$ 823                               | \$ 1,068           | \$ 2,596                        |
| Debt service - interest and fees                                     |                           | (18,988)                             | (18,988)           | (19,294)                        |
| State grant  |                           |                                      |                    | 650                             |
|  | <u>\$ 245</u>             | <u>\$ (18,165)</u>                   | <u>\$ (17,920)</u> | <u>\$ (16,048)</u>              |
| <b>CHANGE IN NET ASSETS</b>  | <b>\$ (15,790)</b>        | <b>\$ (24,089)</b>                   | <b>\$ (39,879)</b> | <b>\$ (65,666)</b>              |
| Net assets at beginning of year                                      | <u>275,652</u>            | <u>714,333</u>                       | <u>989,985</u>     | <u>1,055,651</u>                |
| <b>NET ASSETS AT END OF YEAR</b>                                     | <b>\$ 259,862</b>         | <b>\$ 690,244</b>                    | <b>\$ 950,106</b>  | <b>\$ 989,985</b>               |

The accompanying notes are an integral part of the financial statements.

COMBINING STATEMENTS OF CASH FLOWS - ENTERPRISE FUNDS

TOWNSHIP OF WATERSMEET, MICHIGAN

|   | Year ended March 31, 2004 |                                      |                   | Year ended<br>March 31,<br>2003 |
|---|---------------------------|--------------------------------------|-------------------|---------------------------------|
|   | Water<br>Supply<br>Fund   | Sewage<br>Disposal<br>System<br>Fund | Combined          | Combined                        |
| Cash flows from operating activities:                           |                           |                                      |                   |                                 |
| Cash received from customers                                    | \$ 40,935                 | \$ 59,543                            | \$ 100,478        | \$ 86,048                       |
| Hydrant rental  |                           |                                      |                   | 9,600                           |
| State grant received  |                           |                                      |                   | 650                             |
| Cash paid suppliers and employees<br>for goods and services     | <u>(50,896)</u>           | <u>(32,709)</u>                      | <u>(83,605)</u>   | <u>(90,473)</u>                 |
| NET CASH PROVIDED BY<br>(USED IN) OPERATING ACTIVITIES          | \$ (9,961)                | \$ 26,834                            | \$ 16,873         | \$ 5,825                        |
| Cash flows from capital and related<br>financing activities:    |                           |                                      |                   |                                 |
| Capital expenditures  | \$ (39,856)               | \$ (27,959)                          | \$ (67,815)       |                                 |
| Principal paid on revenue bonds                                 |                           | (5,000)                              | (5,000)           | \$ (5,000)                      |
| Revenue bond interest and fees                                  |                           | <u>(18,988)</u>                      | <u>(18,988)</u>   | <u>(19,294)</u>                 |
| NET CASH USED IN<br>CAPITAL AND RELATED<br>FINANCING ACTIVITIES | \$ (39,856)               | \$ (51,947)                          | \$ (91,803)       | \$ (24,294)                     |
| Cash flows from noncapital financing<br>activities -            |                           |                                      |                   |                                 |
| Advance from (to) other fund                                    | (6,077)                   | 3,590                                | (2,487)           | 2,487                           |
| Cash flows from investing activities -                          |                           |                                      |                   |                                 |
| Interest earned   | <u>245</u>                | <u>823</u>                           | <u>1,068</u>      | <u>2,596</u>                    |
| NET DECREASE IN CASH  | \$ (55,649)               | \$ (20,700)                          | \$ (76,349)       | \$ (13,386)                     |
| Cash at beginning of year                                       | <u>76,687</u>             | <u>172,066</u>                       | <u>248,753</u>    | <u>262,139</u>                  |
| CASH AT END OF YEAR   | <u>\$ 21,038</u>          | <u>\$ 151,366</u>                    | <u>\$ 172,404</u> | <u>\$ 248,753</u>               |

COMBINING STATEMENTS OF CASH FLOWS - ENTERPRISE FUNDS (CONTINUED)

|   | Year ended March 31, 2004 |                                      |                  | Year ended                    |
|---|---------------------------|--------------------------------------|------------------|-------------------------------|
|   | Water<br>Supply<br>Fund   | Sewage<br>Disposal<br>System<br>Fund | Combined         | March 31,<br>2003<br>Combined |
| Reconciliation of operating loss<br>to net cash provided by (used in)<br>operating activities:        |                           |                                      |                  |                               |
| Operating loss  | \$ (16,035)               | \$ (5,924)                           | \$ (21,959)      | \$ (49,618)                   |
| Adjustments to reconcile operating<br>loss to net cash provided by<br>(used in) operating activities: |                           |                                      |                  |                               |
| Depreciation  | \$ 11,956                 | \$ 36,755                            | \$ 48,711        | \$ 48,709                     |
| State grant received  |                           |                                      |                  | 650                           |
| (Increase) decrease in customer<br>accounts receivable  | (5,022)                   | (3,260)                              | (8,282)          | 3,935                         |
| Increase (decrease) in:   |                           |                                      |                  |                               |
| Accounts payable  | (513)                     | (133)                                | (646)            | 1,034                         |
| Advance collections   | <u>(347)</u>              | <u>(604)</u>                         | <u>(951)</u>     | <u>1,115</u>                  |
| Total adjustments   | \$ 6,074                  | \$ 32,758                            | \$ 38,832        | \$ 55,443                     |
| NET CASH PROVIDED BY<br>(USED IN) OPERATING ACTIVITIES  | \$ <u>(9,961)</u>         | \$ <u>26,834</u>                     | \$ <u>16,873</u> | \$ <u>5,825</u>               |

The accompanying notes are an integral part of the financial statements.



## STATEMENTS OF NET ASSETS

## TOWNSHIP OF

|  | <u>March 31,</u>         |                            |
|--|--------------------------|----------------------------|
|  | 2004                     | 2003                       |
| <b>ASSETS</b>  |                          |                            |
| <b>CURRENT ASSETS</b>                                      |                          |                            |
| Cash in bank   | \$ 115,297               | \$ 136,133                 |
| Customer accounts receivable                               | 10,449                   | 7,189                      |
| Due from Water Supply Fund                                 | <u>          </u>        | <u>6,077</u>               |
| <b>TOTAL CURRENT ASSETS</b>                                | <b>\$ 125,746</b>        | <b>\$ 149,399</b>          |
| <b>NONCURRENT ASSETS</b>                                   |                          |                            |
| Utility plant in service                                   | \$ 1,486,568             | \$ 1,458,609               |
| Less allowances for depreciation                           | <u>649,746</u>           | <u>612,991</u>             |
|  | \$ 836,822               | \$ 845,618                 |
| Restricted cash - bond reserve and<br>replacement accounts | <u>36,069</u>            | <u>35,933</u>              |
| <b>TOTAL ASSETS</b>  | <b><u>\$ 998,637</u></b> | <b><u>\$ 1,030,950</u></b> |

## SEWAGE DISPOSAL SYSTEM FUND

WATERSMEET, MICHIGAN

|   | March 31,         |                   |
|---|-------------------|-------------------|
|   | 2004              | 2003              |
| LIABILITIES                                     |                   |                   |
| CURRENT LIABILITIES                             |                   |                   |
| Accounts payable                                | \$ 1,579          | \$ 1,712          |
| Accrued interest                                | 1,608             | 1,608             |
| Advance collections                             | 206               | 810               |
| Due to General Fund                             |                   | 2,487             |
| Current maturity on long-term debt              | <u>5,000</u>      | <u>5,000</u>      |
| TOTAL CURRENT LIABILITIES                       | \$ 8,393          | \$ 11,617         |
| LONG-TERM DEBT                                  |                   |                   |
| Revenue bonds payable                           | \$ 305,000        | \$ 310,000        |
| Less amount classified as current liability     | <u>5,000</u>      | <u>5,000</u>      |
|   | \$ 300,000        | \$ 305,000        |
| TOTAL LIABILITIES                               | <u>\$ 308,393</u> | <u>\$ 316,617</u> |
| NET ASSETS                                      |                   |                   |
| Invested in capital assets, net of related debt | \$ 531,822        | \$ 535,618        |
| Restricted for debt service                     | 36,069            | 35,933            |
| Unrestricted                                    | <u>122,353</u>    | <u>142,782</u>    |
| TOTAL NET ASSETS                                | <u>\$ 690,244</u> | <u>\$ 714,333</u> |

The accompanying notes are an integral part of the financial statements.

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS -  
SEWAGE DISPOSAL SYSTEM FUND

TOWNSHIP OF WATERSMEET, MICHIGAN

|  |                           | Year ended March 31, |                   |
|--|---------------------------|----------------------|-------------------|
|  |                           | 2004                 | 2003              |
| <hr/>                                      |                           |                      |                   |
| Operating revenues - charges for services: |                           |                      |                   |
| Sales                                      | \$                        | 63,407               | \$ 67,624         |
| Less amounts refunded                      |                           |                      | <u>(7,123)</u>    |
|  | \$                        | <u>63,407</u>        | \$ 60,501         |
| Operating expenses:                        |                           |                      |                   |
| Personnel services                         | \$                        | 18,361               | \$ 19,467         |
| Purchase of services                       |                           | 10,533               | 22,422            |
| Materials and supplies                     |                           | 3,682                | 12,060            |
| Provision for depreciation                 |                           | <u>36,755</u>        | <u>36,754</u>     |
|  | \$                        | <u>69,331</u>        | \$ 90,703         |
|  | OPERATING LOSS            | \$ (5,924)           | \$ (30,202)       |
| Nonoperating revenues (expenses):          |                           |                      |                   |
| Interest earned                            | \$                        | 823                  | \$ 1,887          |
| Debt service - interest and fees           |                           | <u>(18,988)</u>      | <u>(19,294)</u>   |
|  | \$                        | <u>(18,165)</u>      | \$ (17,407)       |
|  | CHANGE IN NET ASSETS      | \$ (24,089)          | \$ (47,609)       |
| Net assets at beginning of year            |                           | <u>714,333</u>       | <u>761,942</u>    |
|  | NET ASSETS AT END OF YEAR | <u>\$ 690,244</u>    | <u>\$ 714,333</u> |

The accompanying notes are an integral part of the  
financial statements.

STATEMENTS OF CASH FLOWS - SEWAGE DISPOSAL SYSTEM FUND

TOWNSHIP OF WATERSMEET, MICHIGAN

|   | Year ended March 31, |                   |
|---|----------------------|-------------------|
|   | 2004                 | 2003              |
| Cash flows from operating activities:                     |                      |                   |
| Cash received from customers                              | \$ 59,543            | \$ 64,327         |
| Cash paid to suppliers for goods and services             | <u>(32,709)</u>      | <u>(53,062)</u>   |
| NET CASH PROVIDED BY OPERATING ACTIVITIES                 | \$ 26,834            | \$ 11,265         |
| Cash flows from capital and related financing activities: |                      |                   |
| Capital expenditures                                      | \$ (27,959)          |                   |
| Principal paid on revenue bonds                           | (5,000)              | \$ (5,000)        |
| Revenue bond interest and fees paid                       | <u>(18,988)</u>      | <u>(19,294)</u>   |
| NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES | \$ (51,947)          | \$ (24,294)       |
| Cash flows from noncapital financing activities -         |                      |                   |
| Advances from other funds                                 | 3,590                | 2,487             |
| Cash flows from investing activities -                    |                      |                   |
| interest earned   | <u>823</u>           | <u>1,887</u>      |
| NET DECREASE IN CASH                                      | \$ (20,700)          | \$ (8,655)        |
| Cash at beginning of year                                 | <u>172,066</u>       | <u>180,721</u>    |
| CASH AT END OF YEAR                                       | <u>\$ 151,366</u>    | <u>\$ 172,066</u> |

STATEMENTS OF CASH FLOWS - SEWAGE DISPOSAL SYSTEM FUND (CONTINUED)

|   | Year ended March 31, |             |
|---|----------------------|-------------|
|   | 2004                 | 2003        |
| Reconciliation of operating loss to net cash provided by operating activities:        |                      |             |
| Operating loss  | \$ (5,924)           | \$ (30,202) |
| Adjustments to reconcile operating loss to net cash provided by operating activities: |                      |             |
| Depreciation  | \$ 36,755            | \$ 36,754   |
| (Increase) decrease in customer accounts receivable                                   | (3,260)              | 3,493       |
| Increase (decrease) in:   |                      |             |
| Accounts payable  | (133)                | 887         |
| Advance collections   | (604)                | 333         |
| Total adjustments   | \$ 32,758            | \$ 41,467   |
| NET CASH PROVIDED BY OPERATING ACTIVITIES   | \$ 26,834            | \$ 11,265   |

The accompanying notes are an integral part of the financial statements.

## STATEMENT OF CHANGES IN ASSETS AND LIABILITIES - TAX COLLECTION FUND

## TOWNSHIP OF WATERSMEET, MICHIGAN

Year ended March 31, 2004

|                                   | Balance at<br>April 1,<br>2003 | Additions           | Deductions          | Balance at<br>March 31,<br>2004 |
|-----------------------------------|--------------------------------|---------------------|---------------------|---------------------------------|
| Assets:                           |                                |                     |                     |                                 |
| Cash in bank                      | <u>\$ 315,093</u>              | <u>\$ 4,054,324</u> | <u>\$ 3,968,204</u> | <u>\$ 401,213</u>               |
| Liabilities:                      |                                |                     |                     |                                 |
| Due Watersmeet Township           | \$ 282,919                     | \$ 476,832          | \$ 395,654          | \$ 364,097                      |
| Due Gogebic County                |                                | 1,523,066           | 1,523,066           |                                 |
| Due Gogebic-Ontonagon             |                                |                     |                     |                                 |
| Intermediate School District      |                                | 329,185             | 329,185             |                                 |
| Due Watersmeet School District    |                                | 1,707,477           | 1,707,477           |                                 |
| Undistributed Commercial          |                                |                     |                     |                                 |
| Forest Act taxes                  | 12,822                         | 6,035               | 12,822              | 6,035                           |
| Undistributed delinquent personal |                                |                     |                     |                                 |
| property taxes                    | <u>19,352</u>                  | <u>11,729</u>       |                     | <u>31,081</u>                   |
|                                   | <u>\$ 315,093</u>              | <u>\$ 4,054,324</u> | <u>\$ 3,968,204</u> | <u>\$ 401,213</u>               |

The accompanying notes are an integral part of the  
financial statements.

SUPPLEMENTAL  
REPORTS

**JOKI, MAKELA & POLLACK, P.L.L.C.**

**CERTIFIED PUBLIC ACCOUNTANTS  
301 N. SUFFOLK STREET  
IRONWOOD, MICHIGAN 49938-2027**

**T. J. MAKELA, C.P.A.  
W. J. JOKI, C.P.A.  
A. R. POLLACK, C.P.A., C.S.E.P.  
MEMBERS**

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**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING BASED ON AN AUDIT  
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE  
WITH *GOVERNMENT AUDITING STANDARDS***

Supervisor and Members of the Board  
Township of Watersmeet  
Watersmeet, Michigan

We have audited the financial statements of the government activities, the business-type activities and each major fund of Township of Watersmeet as of and for the year ended March 31, 2004, which collectively compares the Township of Watersmeet's basic financial statements and have issued our report thereon dated June 30, 2004. Township of Watersmeet has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis – for State and Local Governments* as of March 31, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Township of Watersmeet's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Township of Watersmeet's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted one matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Township of Watersmeet's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying Schedule of Findings as item 03-1.



A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described in the Schedule of Findings is not a material weakness.

This report is intended solely for the information and use of the Township Board, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Joki, Makela & Pollack, PLLC*

Certified Public Accountants

Ironwood, Michigan  
June 30, 2004

SCHEDULE OF FINDINGS  
TOWNSHIP OF WATERSMEET  
Year ended March 31, 2003

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Reportable Condition:

(03-1) Michigan Public Act 621 of 1978

Michigan Public Act 621 of 1978 provides that a local unit shall prepare and monitor its budget in accordance with the Act. The Township's actual revenues were less than those budgeted for certain funding sources during the year ended March 31, 2004. Even though several budget amendments were made during the year, we recommend that the Township review the requirements of Michigan Public Act 621 of 1978, and amend its budget in accordance therewith in the future to avoid expenditures in excess of budgeted amounts.